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The gathering battle between the White House and Congress could have tragic consequences: leader

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Politics this week

Mar 29th 2007
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AP

Iran captured 15 British sailors and marines at the mouth of the Shatt al-Arab waterway. Britain released navigational evidence indicating that they were taken in Iraqi territorial waters; Iran showed its captives on state television and said it would release the one woman it held. See article

Gunmen killed at least 70 Sunnis in Tal Afar in **Iraq**. Elsewhere, Iraq's deputy prime minister, Salam al-Zubaie, was hurt in a suicide-bomb attack. Nine people were killed in the assassination attempt, which occurred while Mr Zubaie, a Sunni, attended prayers.

Condoleezza Rice, America's secretary of state, persuaded Mahmoud Abbas, the **Palestinian** president, and Ehud Olmert, **Israel's** prime minister, to promise to hold regular fortnightly meetings. Meanwhile, members of the **Arab League**, meeting in Riyadh, offered Israel peace if it withdrew to its pre-1967 boundaries and accepted the right of all Palestinian refugees to return. **Saudi Arabia's** King Abdullah opened the conference and called America's occupation of Iraq "illegal". See article

The government of **Egypt** won a referendum endorsing changes to the constitution which, it claimed, would strengthen democracy. Critics said the changes would in fact make the country less free. Amid accusations of ballot-rigging, turnout was just 27%. See article

Morgan Tsvangirai, the main leader of the opposition in **Zimbabwe**, was briefly arrested in a raid on his party's headquarters, two weeks after being beaten up by the police. President Robert Mugabe, who is under increasing pressure to step down, attended a meeting of regional leaders in Tanzania. See article

War-powers resolution

After weeks of manoeuvring, America's Democrats scored a legislative coup by passing a **war-spending** bill in the House of Representatives and looked set to do the same in the Senate. These link funding for the war in Iraq to a timetable for withdrawing American troops. George Bush said the plan would hamstring operations and promised a veto. See article

In the first trial under a new system of military courts to be held at **Guantánamo Bay**, David Hicks, an Australian, pleaded guilty to a charge of helping al-Qaeda fight American troops in Afghanistan. Mr Hicks's case has become a hot political issue in Australia, where the government has been criticised for not intervening on his behalf.

A fork in the road

AFP

In a big defeat for **Quebec separatism**, the Parti Québécois was beaten into third place in a provincial election by Action Démocratique du Québec, which favours an "autonomous" Quebec within Canada, and the Liberals, who clung on for a second term but with a legislative minority. See article

Colombia's government rejected a leaked report from the CIA which claimed that General Mario Montoya, now the army commander, had collaborated with right-wing paramilitaries during an operation against left-wing guerrillas in Medellín in 2002.

Chile's president, Michelle Bachelet, reshuffled her cabinet, sacking four ministers. She has faced criticism over a botched public-transport scheme in the capital, Santiago, and a lack of decisive leadership. See article

Police in Jamaica said that Bob Woolmer, the Pakistan cricket coach found dead in his hotel room, was murdered by “manual strangulation”. Pakistan, along with India, was surprisingly eliminated from the **cricket World Cup** being staged in the Caribbean. See article

Getting bolder

The war in **Sri Lanka** intensified. The Liberation Tigers of Tamil Eelam launched their first-ever air strike, on an air-force base next to Colombo's international airport. In the east of the country, government forces took an important Tiger base. Some 155,000 people have been displaced by the fighting in the east in the past six weeks. See article

The United Nations' food programme reported that **North Korea** had admitted it needed assistance to cope with food shortages.

Thailand's prime minister rejected military calls for an emergency decree to quell public protests. An election is planned for December.

Shinzo Abe, **Japan's** prime minister, repeated in parliament Japan's 1993 apology for the military brothels set up in the second world war. He did not, however, retract controversial statements casting doubt on whether the prostitutes had been coerced.

To no one's surprise, Donald Tsang was re-elected as **Hong Kong's** chief executive by a committee designed to ensure China's man always wins.

China's president, Hu Jintao, visited Moscow for a state visit, marking the beginning of the “**China in Russia**” year. The two countries announced a joint effort to explore Mars and one of its moons in 2009.

And many more?

EPA

The **European Union** marked 50 years since its founding Treaty of Rome with a string of birthday bashes. European heads of government issued a “Berlin declaration” that avoided any specific mention of reviving the stalled EU constitution but instead used coded words about putting the club on a “renewed common basis” before mid-2009.

Nicolas Sarkozy stepped down as France's interior minister to concentrate on running for the **French presidency**. The latest polls have narrowed his lead over the Socialist candidate, Ségolène Royal, with the centrist François Bayrou dropping back. See article

The United Nations envoy for **Kosovo** sent his plan for conditional independence for the Serb province to the UN Security Council. The Russians are threatening to veto any resolution not acceptable to Serbia.

Latvia and Russia signed a treaty demarcating their border, after a 16-year dispute since the break-up of the Soviet Union.

The **Northern Ireland** peace process culminated in a power-sharing deal between Ian Paisley's Democratic Unionists and Gerry Adams's Sinn Fein. In May Mr Paisley will become first minister, with Mr Adams's second-in-command, Martin McGuinness, as his deputy. See article

A plan was unveiled to split **Britain's** Home Office. It will boost its focus on domestic security issues, such as terrorist threats, while prisons and probation will go to a new justice ministry. See article

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Business this week

Mar 29th 2007
From The Economist print edition

Another chapter was added to the 18-month saga of the takeover of **Endesa**, Spain's biggest power company. **E.ON**, a German utility, won the backing of both Endesa's board and its third-biggest shareholder after (again) raising its offer, to *euro*42 billion ($56 billion). However, with threats of legal action flying between E.ON and an Italian-Spanish alliance willing to pay more for Endesa, its success is not assured. Meanwhile, the European Commission referred the Spanish government to the European Union's highest court for trying to thwart the German bid.

In yet another sign of Russia's tightening grip on its energy resources, **Rosneft**, the state oil company, bought back the 9% stake that was held in it by **Yukos**, a private oil firm that was forced into bankruptcy by a "revised" government tax demand. Rosneft won the stake in the first auction of Yukos's former holdings and paid far less than the market value. The only other bidder, **TNK-BP**, a Russian joint venture involving BP, quit the bidding after less than five minutes. See article

EDP, Portugal's biggest utility, said it would buy **Horizon Wind Energy** from Goldman Sachs. Based in Houston, Horizon operates wind farms throughout America, where wind power's generating capacity rose by 27% last year and is estimated to increase by a similar amount this year.

Xstrata, an Anglo-Swiss miner, boosted its nickel business when it agreed to buy **LionOre Mining**, which is listed in Toronto, for C$4.6 billion ($4 billion).

Relative clause

Porsche increased its stake in **Volkswagen** to 31%, instigating a mandatory takeover bid under German regulations. Porsche signalled that a takeover wasn't its immediate goal when it offered shareholders the minimum price allowed by law, but the manoeuvre solidified its strategic control of VW under the assertive hand of Ferdinand Piëch, VW's chairman and a member of the Porsche family. See article

In another blow to the reputation of **Siemens**, Johannes Feldmayer, a member of its management board, was arrested in connection with alleged payments to a pro-management labour group and potential counterweight to IG Metall, Germany's largest trade union. Europe's biggest engineering company is the subject of a separate investigation of alleged bribery.

Flying into a new dawn

Delta Air Lines applied for permission to list shares again, starting in May. The carrier entered bankruptcy protection in September 2005 and expects to leave it at the end of April.

Alitalia made a pre-tax loss of *euro*405m ($508m) in 2006, almost three times as much as the previous year. Several potential buyers are negotiating with the Italian government for the controlling stake it is selling in the beleaguered national airline. The last time Alitalia reported an annual profit was 1998.

Intel unveiled plans to open a $2.5 billion factory in the Chinese city of Dalian by 2010. The decision is a boon to China's ambitions to be a centre for high-tech industry as well as a maker of low-cost electronics. However, with an eye on potential opposition from American politicians to the export of sensitive technology, Intel said the new plant will make chips other than microprocessors. See article

Lennar's quarterly net profit plunged by 73% compared with a year ago. America's third-biggest homebuilder said a soft market had been worsened by problems in subprime mortgages. **Beazer Homes** denied reports that it was being investigated for fraud stemming from mortgage loans. It confirmed it was co-operating with federal prosecutors, but that there were "no allegations of any wrongdoing". Its share

price slumped.

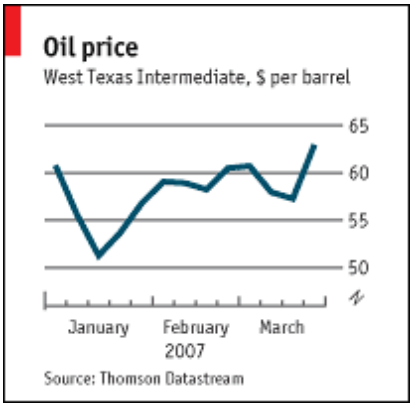
Ben Bernanke assured Congress that he would continue to watch the subprime-mortgage market carefully. However, the Federal Reserve's chairman told the Joint Economic Committee that inflation remained the Fed's “predominant policy concern”.

Taylor Woodrow and **George Wimpey** announced a merger, so creating Britain's biggest housebuilder. See article

The **Tokyo Stock Exchange** named a new boss. Atsushi Saito, who until recently headed a state corporation charged with reviving some of Japan's more anaemic companies, will lead the exchange through a period of alliance-building among bourses worldwide.

Anxiety attack

The **price of oil** rose sharply to reach its highest level this year, partly in response to increased tensions in the Gulf region. Rumours that Iran had fired at an American warship caused the price to push briefly past $68 a barrel in intra-day trading. See article



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KAL's cartoon

Mar 29th 2007
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Kevin Kallaugher

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George Bush and Congress

Besieged

Mar 29th 2007
From The Economist print edition

The gathering struggle between the White House and Congress could have tragic consequences

Get article background

IF OPPOSITION really were true friendship, as the poet William Blake averred, then George Bush would be a very popular man. Last week the House of Representatives in effect refused to give the president the money he needs to conduct his “surge” in Iraq by attaching to his request for a supplementary allocation of $124 billion the condition that all American troops be out of Iraq 17 months from now. Now the Senate looks close to demanding that the troops leave within a year (see article). The two versions must be harmonised before they reach the president's desk (and his veto); but the Democrats' manoeuvres amount to the most powerful assault on the president's power to wage war since the Case-Church amendment prohibited all further engagement in Vietnam in 1973. The Iraq war has truly reached Pennsylvania Avenue.

Nor is it the only battle being waged there. The Democrats are seeking to subpoena Mr Bush's closest aide, Karl Rove, to face a grilling over allegations that he masterminded the sacking of eight government prosecutors for political reasons. They are also hell-bent on forcing the resignation of another close ally, the attorney-general, Alberto Gonzales, over the same issue. Besides all that, they have laid down a long list of conditions before they will consider either approving four free-trade deals already in the pipeline or renewing the president's “fast-track” authority to get such bills approved, which expires at the end of June. The noble talk last November by both Mr Bush and the new speaker of the House, Nancy Pelosi, of a new era of bipartisan co-operation has given way to peevishness, muscle-flexing and political violence.

Many people will rejoice at the sight of a besieged White House and Mr Bush and Dick Cheney ducking for cover. But regardless of what you think about this most inept of presidencies, the current civil war in Washington has the making of a tragedy—both for America and for millions of people around the globe. For example, the Doha trade round, with which so many Democrats are keen to play politics, could lift millions of the world's most wretched inhabitants out of poverty. At home, there is a huge amount president and Congress could and should collaborate on, from immigration reform to the care of the elderly. For such huge gains to be sacrificed, voters will surely demand good reasons.

Carry on overseeing, Congress

There are in fact two big issues behind most of the politicking: executive privilege and Iraq. On the matter of the White House's powers, Mr Rove, Mr Gonzales and the prosecutors, it is possible to have sympathy for the Democrats' position. Mr Gonzales is a worthy target for political skirmishers: had he an ounce of integrity, he would have resigned long ago for his role in commissioning a memorandum that amounted to a legal defence of torture. And the treatment of the prosecutors is certainly worth fighting over. Though it is true that government prosecutors “serve at the pleasure of the president”, there is evidence that at least some of those fired were excellent public servants who were removed because they refused to submit to improper pressure in political cases.

This is exactly the sort of thing that Congress is supposed to keep an eye on. It was, more than anything, the failure of the previous Republican Congress to hold the executive to account that most merited its ejection by the voters last year. Mr Bush and particularly Mr Cheney have used their time in office to expand presidential authority relentlessly. The president is co-operating only minimally, and grudgingly, with the investigation. He has no one to blame but himself if Congress is now minded to push back.

But hands off Iraq

The battle over Iraq, though, is much more serious. And it looks very much as though the Democrats have over-reached themselves. Even from a short-term political perspective, their logic seems questionable. Yes, Ms Pelosi has at her back a large group of strongly anti-war congressmen; and, yes, the war is deeply unpopular. But, by cutting off money, the Democrats lay themselves open to the charge that they are damaging the morale and perhaps even the capabilities of troops in the field. It seems particularly perverse to be doing this only two months after the Senate unanimously confirmed the appointment to the command of American forces in Iraq of General David Petraeus, an impressive officer who believes that the surge is showing signs of working. This contradiction will surely be used against the Democrats by their opponents.

But the domestic American politics of a withdrawal date are—or should be—a secondary issue. The only question that should count is this: does a deadline make sense? The desire to impose an end to America's involvement in Iraq, so costly in blood and treasure, is understandable. The Democrats fear a “war without end”, because they think that Mr Bush is incapable of ever acknowledging that his strategy has failed and bringing his defeated troops home. They also believe that a deadline could have the advantage of forcing the predominantly Shia Iraqi government into much greater efforts, both in beefing up its own security capabilities and in reaching out to the alienated and dangerous Sunni minority.

Both of these arguments have some merit. But the first of them ignores the possibility, which it is too early to discount, that the surge strategy may actually start to show results, enabling Mr Bush to begin a withdrawal in his own time from a position of relative advantage. And the second is a gamble. Announcing a deadline may very well concentrate minds in Baghdad. But it could just encourage the Shias to step up their onslaught on the Sunni insurgents—and on Sunnis in general.

Sooner or later, America will leave Iraq. But it is essential that it leaves in the right way. If Mr Bush is seen to be forced out by politics at home, America's ability to influence events both inside Iraq and in the wider region will be greatly undermined. That could lead to a dreadful outcome in Iraq, make Iran bolder in pursuit of its nuclear ambitions and delight anti-Americans everywhere. If the Democrats are wise, they will not want that on their record.

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China and its region

China's great game in Asia

Mar 29th 2007
From The Economist print edition

Why are there so few takers outside China for its self-proclaimed doctrine of "peaceful rise"?

LIKE the emergence of Germany in the 19th century and of America in the 20th, China's rapid rise to superpower status generates as much fear as admiration. The fears are most acute in its own neighbourhood. Yet from an historical perspective, one of the more remarkable developments of recent years may be China's submission to the tiny threads of international constraint, especially in its own region. It belongs to the Asia-Pacific Economic Co-operation Forum, whose members span the Pacific. The East Asia Summit and the regional forum of the Association of South-East Asian Nations (ASEAN) tie it closer to its Asian neighbours. The Shanghai Co-operation Organisation links it with Russia and Central Asia.

More than this, it has shown active good-neighbourliness. A generation ago, China disputed most of its borders. Almost all have been settled, with the notable exceptions of those with Japan at sea and India in the Himalayas. Even in the case of the huge claims China and India have on each other's territory, China has acquiesced in seemingly never-ending talks allowing relations to improve in other areas. It no longer routinely provokes its southern neighbours by flexing naval muscles around the sand-and-coral specks in the South China Sea where six countries' claims overlap. It has begun to "consult", after a fashion, the lower riparian states affected when it dams its rivers, such as the Mekong and the Salween.

Partly, it's because of what it does

This political tactfulness has been accompanied by an unplanned makeover of its economic image. A decade ago, China's new role as the world's workshop was one indirect cause of regional financial crisis. Investors began to take fright at the scale of current-account deficits in countries such as Thailand, where export growth had stalled or slowed, in part as a result of new competition from China. Many in the region saw China's supercharged growth as a threat. Many still do, but these days just as many see it as an opportunity. Most Asian countries enjoy surpluses in their trade with China.

And yet, as our special report in this week's issue argues, if you scour the region for China's firm friends it is hard to find them. Even Russia, where China's president, Hu Jintao, was this week pressing the flesh, is a fair-weather friend—or rather sees China as a foul-weather insurance policy. India and Japan, China's other big regional counterparts, both view it with suspicion at best and, at worst, paranoia. That leaves as China's chums a scanty list of Neanderthal dictatorships such as Myanmar and North Korea. And even their friendship does not amount to much. Far from being a loyal client, Myanmar plays China off against

India and its fellow members of ASEAN. And China's relationship, famously “as close as lips and teeth”, with North Korea spawned a mouth ulcer last October when North Korea let off a nuclear weapon. North Korea's cruel but cunning despot, Kim Jong Il, exploits China's fear that, if his vile regime collapses, China might have a strong, American-allied democratic Korea on its border.

Why are China's neighbours not always susceptible to its charms? Of course, any rapidly emerging big power is unsettling. Like America, China can still display a penchant for unilateralism that undermines all its careful diplomacy. As it overtakes America as the world's largest emitter of greenhouse gases, its cavalier disregard of the global environment will become an ever-bigger issue in its foreign relations. More traditional fears also unsettle China's neighbours. This month China's annual budget called for another big increase (of nearly 18%) in military spending. Most analysts believe the published budget is understated—in which case, why trumpet such a big number? And why, without warning, blow up a satellite in space, as a Chinese missile did in January?

A perception therefore persists that China's goodwill extends only so far as its interests are not affected. In its dispute with India, for example, it is the status quo power: it is happy with the present arrangements, so what has it to lose by talking for ever? In one crucial respect, however, it is far from a status quo power: its historically dubious and morally untenable claim on Taiwan. This is one big reason, other than merely acting the big-power part, for the military build-up, and could one day bring war with the real superpower.

A much better Taiwan policy is available to China. The “one country, two systems” formula promised to Hong Kong in 1997, which mirrored that offered to the Dalai Lama's Tibet in 1951, was aimed in large measure at the more important goal to China of coaxing Taiwan back into the “motherland”. But China has sabotaged its own strategy. Like the long history of repression in Tibet, the farcical “re-election” on March 25th of Hong Kong's British-trained, Chinese-adopted chief executive, Donald Tsang, by a committee dominated by China's placemen shows how little China cares to lend substance to its promises of autonomy and democracy—even though Mr Tsang would probably have won a real election anyway.

Giving Hong Kongers the freedoms they have demanded, and talking to the Dalai Lama about the future of his homeland, would do more to impress China's neighbours than a decade's worth of state visits and free-trade agreements. Yet China will not yield on either front, sternly warning critics against infringing on its internal affairs.

Mainly, it's because of what it is

Why so adamant? One reason is that the Communist Party fears that allowing political freedom to flourish on its fringes would loosen its ability to monopolise power in China as a whole. And there lies the real reason why China is so friendless. With no attractive ideas or values to appeal to neighbours, it falls back on a resurgent nationalism that scares them instead: we were a great power, should always be a great power, and by golly look at us now, so get out of the way!

Internal reform would not change everything: a big, rising nation frightens smaller neighbours whatever its political system—ask those in America's backyard. But until China embraces openness and pluralism at home, no charm offensive is ever going to set its neighbours' minds completely at ease.

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Doing business in Europe

The curse of the Habsburgs

Mar 29th 2007
From The Economist print edition

Foreign investors should note how badly they are being treated in Spain and Austria

Claudio Munoz

CAST your eye over a map of the European Union, and you will see plenty of countries whose entrepreneurial spirit was buried for decades—and not just those that used to be run by communists. To take just two examples, the élan of Austrian business was stifled for many years by a bloated public sector, Kafkaesque bureaucracy and politicised boardrooms, and Spain had a lot of catching up to do after it emerged from dictatorship in the 1970s. Today both countries can boast impressive economic records. What a pity, then, that politicians in both Madrid and Vienna have learned a bad European habit along with many good ones: trying to stop foreign companies buying local ones for purely nationalistic reasons.

As it happens, Austrian and Spanish companies have been shopping gaily in other European countries. Vienna's Erste Bank bought ten banks in ten years in central and eastern Europe, where Austria Telekom is also active. Spain's Banco Santander took over Abbey, Britain's sixth-biggest bank. Ferrovial, a construction company, bought BAA, a British airport operator. Telefónica, Spain's biggest telecoms company, has bought mobile-phone firms in Britain and Latin America.

Shopping in Austria and Spain, however, is not so easy. Spanish politicians are showing a taste for the sort of intervention long practised across the border in France. In the long-running battle for control of Endesa, Spain's biggest electricity company, the government first backed a Spanish gas firm, Gas Natural, against E.ON of Germany. It persuaded Spain's stockmarket regulator to lean against the German bid and it pushed the Italian government to encourage Enel, Italy's state-controlled energy giant, to team up with Acciona, a construction and services firm that has bought more than one-fifth of Endesa in recent months, to make a rival offer.

Austria has employed similar methods, especially to resist its unloved German neighbours. Now it is mulling a new ploy to keep Böhler-Uddeholm, a steelmaker, out of the hands of CVC, a British private-equity firm (see article). And it is talking about bullying Austrian investors into setting up a private-equity fund to buy controlling stakes in the country's corporate jewels to protect them against foreigners. Why? Because Austria is a small country; because foreign investors are only keen on making a big buck quickly; because they will cut jobs, neglect R&D and move production to other countries.

Your Schnapps is ready, Herr Colbert

CVC says it will do none of these things, but the government's arguments are rotten ones anyway. So what if foreign investors are interested in making a buck, fast or slow? Good, if that means bashing the competition and getting costs down. And why should small countries resist foreign capital any more than big ones? When the domestic pool of savings is small, there is all the more reason to draw on foreign money.

With luck, the Austrian investors who will supposedly stump up the money for the national fund will decide they have better uses for their cash. And both the Spanish and the Austrians may well run foul of EU competition rules, as other countries have before them. On March 28th the EU took Spain to the European Court of Justice because of its manoeuvres against E.ON. But the true cost is not legal or political, but economic. Discriminating against foreign buyers, or preferring one lot to another, as the Spanish are doing, is a fine way of scaring foreign investors off altogether.

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Robert Mugabe

A test case for Africa

Mar 29th 2007
From The Economist print edition

Zimbabwe's strongman could symbolise Africa's past—or its future

Reuters

Get article background

THIS year Africa plans an impressive number of presidential, parliamentary and local elections. The continent's boosters like to argue that this heralds a new age of democracy, part of the "African renaissance" that has been under way since the turn of the century with the creation of the revamped African Union and a new commitment to good governance. Before it breaks out the champagne, however, Africa needs to do something about Zimbabwe's Robert Mugabe, the tiresome guest who just won't go away.

Zimbabwe is hardly the worst story from Africa. Nor is Mr Mugabe the world's worst dictator. Nothing he has done holds a candle to the genocide in Rwanda in 1994, or the government-inspired slaughter in the Darfur region of Sudan today. His fiercest critics claim he oversaw attempted genocide in the 1980s in Matebeleland, when several thousand people were killed. But it is fairer to think of him as just a moderately violent thug with a touch of megalomania, whose goons club rivals, who closes newspapers, harasses judges and bans public meetings. He even holds elections, albeit rigged ones. The consequences are not trivial: he has destroyed the economy of a once prosperous country and caused a mass exodus of its people. But, in the African scheme, he is a commonplace sort of villain (see article).

That is part of the reason his neighbours have tolerated him. It is also what makes his remaining in power so worrying. For the Mugabe pattern is in danger of infecting many parts of Africa. In a democracy index for sub-Saharan Africa, the Economist Intelligence Unit, our sister organisation, concluded recently that although almost all countries now hold elections, only Mauritius deserves to be rated fully democratic. That judgment is harsh—South Africa was excluded only because it lacks a strong opposition—but the general point holds. The fate of Zimbabwe under Mr Mugabe could all too easily become that of other African democracies, from Nigeria to Ethiopia, and even—one day perhaps—to South Africa itself. Congo is at serious risk of lapsing back into authoritarian rule only months after hugely expensive elections, overseen and protected by the United Nations.

If Africa's leaders want to be taken seriously on democracy and human rights, they simply must speak out in a case as clear as Zimbabwe's. Mr Mugabe is expert at dismissing the West's criticisms as white man's dictation. Britain in particular has little credibility in its former colony. For too long, however, Zimbabwe's neighbours have allowed solidarity with a hero of the liberation struggle to drown out criticisms of what he has become. Now, at last, the mood is changing. "We Africans should hang our heads in shame," says Archbishop Desmond Tutu, the conscience of the anti-apartheid battle.

Some of the credit for the change of mood should indeed go to the democracy talk sweeping Africa this year. There was a time when African leaders used to argue against multi-party democracy on the ground that it would exacerbate tribal divisions. Now they have made at least a rhetorical commitment to the idea of democracy. Helping to get Mr Mugabe out of power, and following that with free and fair elections, would do much to give substance to the rhetoric. Better still, outside pressure seems this time to coincide with real resistance within Zimbabwe itself, where senior members of Mr Mugabe's own ZANU-PF party may now be eager to ditch their boss and are known to have been in talks with the official opposition.

The perfect time to act

This opportunity is too good to waste. It would be nice to believe that at 83 Mr Mugabe belongs to Africa's past. It is in the power of Zimbabwe's neighbours to make sure of that. But if Africa fails to dislodge him he may instead point to a possible future: an awful reminder that holding bogus elections does not make governments accountable, let alone removable. Without tough action against Zimbabwe, and reforms across the continent, there may be more Mugabes to come.

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Northern Ireland

Now for the hard part

Mar 29th 2007
From The Economist print edition

A peace settlement in Northern Ireland does not mean politics as normal

AFP

Get article background

THE sight of Ian Paisley, the 80-year-old patriarch of Ulster's most stubborn Protestants, quietly getting down to business on March 26th with Gerry Adams, the godfather of IRA terrorism, was hopeful and repellent in equal measure.

On the hopeful side of the ledger, Mr Paisley's willingness to take his Democratic Unionist Party (DUP) into a power-sharing executive with Sinn Fein, the political arm of the IRA, on May 8th looks like the final stage of a peace process that began more than a decade ago. Back then, even the most ardent optimists would have scoffed at the idea of Northern Ireland being led by Mr Paisley with Martin McGuinness, a former IRA commander (with blood on his hands), as his deputy first minister. The carefully calibrated statements of both Mr Paisley and Mr Adams, which remembered the horrors of the past with appropriate dignity while looking forward to a happier future, were also genuinely promising signs.

On the other hand, what repelled was not just the knowledge of the destruction both Mr Paisley and especially Mr Adams have wrought during their lives, but the calculated manner in which they ditched the decent parties of Northern Ireland that had strived far more consistently for peace than either of their extreme parties. What credit is due should go to Tony Blair (and his chief of staff, Jonathan Powell) for their unremitting application during the difficult decade that began with the Good Friday Agreement; to John Major, the prime minister before Mr Blair, who took the difficult decision to begin talking to Sinn Fein; to John Hume, the visionary leader of constitutional nationalism who first realised that the IRA was ready to negotiate; and to David Trimble, the unionist who, as first minister in Northern Ireland's power-sharing executive, took great risks, both political and personal, for peace.

By contrast, the historic meeting between Mr Adams and Mr Paisley looks more like a carve-up of influence and jobs than a genuine desire to share power (see article). This makes it extremely difficult to predict what will happen next. In one way it is a reassuring sign of normality that Mr Paisley's party was forced into this week's settlement by the prospect of Northern Ireland's citizens receiving their first water rates and the threat of the Northern Ireland secretary, Peter Hain, to weaken the province's excellent grammar schools. But all those previous years of free water also show that Northern Ireland remains a long way from politics as normal.

The next step to a normal Northern Ireland

Over the 40 years of the troubles, the place has become a subsidy junkie that receives from Westminster £5 billion ($10 billion) more than is raised locally by taxation. More than a third of the 770,000 people in jobs are directly employed by the public sector (which accounts for nearly two-thirds of economic output), while half a million are officially classified as inactive. Part of the problem is the scarcity of private-sector investment, which is crowded out both by the omnipresent state and the large black economy that “peaceful” paramilitaries on both sides of the religious divide hold sway over.

Gordon Brown, as chancellor now and prime minister when Mr Blair goes, will be under pressure to keep the subsidy taps gushing. But what Northern Ireland needs now is a home-grown economic miracle of the kind achieved in the south. Easier said than done, but then getting Mr Paisley and Mr Adams to work together wasn't easy either.

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On R&D, hospital care, hemp, the House of Lords, AIPAC, Jean Baudrillard, Europe

Mar 29th 2007
From The Economist print edition

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On a different wavelength

SIR – Industry's abandonment of basic scientific research only reinforces C.P. Snow's idea of "the two cultures", which describes the incompatibility between scientists and the non-technical establishment ("Out of the dusty labs", March 3rd). In the 1950s and 1960s Ford Motor supported a fine scientific research lab that assessed the future of the transport economy, but its proposals fell on the deaf ears of executives who ignored such things as hybrid vehicles and fuel cells.

Far more glaring was the unwillingness of management at Xerox to turn the remarkable output of Xerox PARC into company-sponsored products. Five years before the appearance of the first personal computer, they were presented with a computer capable of word processing and spreadsheets. A thousand beta versions were deployed throughout the company and also to key potential customers such as Congress and the White House. However, those responsible for manufacturing and marketing the computer offered all kinds of excuses to sidestep innovative products. One executive, an accountant, refused to acknowledge the validity of Moore's Law, the guiding principle of the entire electronics industry. Indeed, C.P. Snow was correct: the technologists and the business executives speak entirely different languages.

Jacob Goldman
Former director of Ford's Scientific Research Laboratory and founder of Xerox PARC
Westport, Connecticut

Hospital transfers

SIR – Your article on the impending surge in medical tourism from America was insightful, but you were wrong to think that doctors will resist the offshoring of medical services ("Sun, sand and scalpels", March 10th). Many physicians welcome alternatives for their patients to the exorbitant cost of facilities in the United States. The foreign hospitals you mentioned offer outstanding care, a room with a view and a farewell cocktail, and will give the bloated American health-care colossus a run for its collective trillions.

Dr Frank Overdyk
Johns Island, South Carolina

Fuel efficiency

SIR – Regarding the search for trees that can produce ethanol, perhaps the time has come to re-evaluate hemp ("Woodstock revisited", March 10th). The plant needs little water, produces up to four times as much cellulose as trees per area and grows much faster. The drawback? Industrial hemp contains traces of THC, which makes its cousin, marijuana, illegal. Hemp is a logical choice for ethanol, sidelined only by the irrationality of zero tolerance.

John Sherman
Santa Barbara, California

Born to govern

SIR – Contrary to the tone of your article on reforming the House of Lords, I think hereditary peers are a good thing ("Jobs for life no longer", March 10th). Democracies (a relatively recent invention) create political classes that retain power by bribing the people with their own money, leading to the ever-increasing growth of the public sector. This weakens the state, which is then overthrown by a younger, more vigorous and less democratic entity.

It would seem there are few correctives to this process, but the House of Lords is one. Its members are not elected, hence no need to bribe and pander to an electorate. In a meritocracy the Lords would increasingly come to represent a random sample of the population over the generations, as regression to the mean moves all to the average. Maybe it is preferable that British democracy be tempered by a few hundred unelected and average lords than cede hegemony to a bunch of professional pols. As William Buckley observed, better to be governed by the first 2,000 names in the Boston phone book than by the Harvard faculty.

John Staddon
Professor of psychology, biology and neurobiology
Duke University
Durham, North Carolina

SIR – In a parliamentary system so debased by conflicts of interest that Lord Hailsham once described it as "an elective dictatorship", the Lords could well play a role in balancing the interests of the people against the ruling party and its rent-seeking clients. An even better alternative would be a system of direct democracy that allowed citizens to look after their own interests.

Stephen Morris
Coorparoo, Australia

Defining issues

SIR – Lexington describes the American Israel Public Affairs Committee as "the American-Jewish lobby" (March 17th). This disturbing use of nomenclature wrongly conflates Israel and Judaism. As well as ignoring the reality that many non-Jews (such as evangelical Christians) back AIPAC, it belies the fact that being Jewish does not presuppose support for Israel, a point your newspaper astutely makes. Jews have a complex relationship with Israel that is often papered over by AIPAC and its allies.

Many Jews, rightly or wrongly, do not support the current government in Israel or even the existence of the state itself, but still identify with the culture and traditions of their religion and fellow adherents. With the disquieting influence that AIPAC yields, referring to it as the "American-Jewish" lobby, rather than the "American-Israel" lobby, plays into the hands of anti-Semitic conspiracy theorists who associate Jews with plots of political and financial global domination.

Adam Schwartz
Washington, DC

Symbolic exchange

SIR – I believe your obituary on the "death" of "Jean Baudrillard" is in error (March 17th). Sub-Lacanian theory would presuppose that the signified "Baudrillard" is merely a neo-modernist capitalist paradox and "death" is a sub-textual patriarchalist paradigm interpolated through a post-colonialist hermeneutic.

As such, as Sontag states, "society is dead"; the signifier is merely replicated as a series of pre-cultural totalities implying post-Foucaultian absurdity. A Derridean reading would suggest that Murphy's mythopoetic reality is a more appropriate gesture to assume.

Thor Halland
Pattaya, Thailand

SIR – One is not sure whether something as trite as death matters a jot in an advanced consumerist civilisation. The only possible improvement to your obituary that comes to mind concerns its timing. I am sure Baudrillard would have appreciated your tribute more than anyone, so it is a great pity that it came a bit too late.

Ranko Bon
Motovun, Croatia

Boom and bust

SIR – As a woman in her 20s, mid-life crises are not something I usually think of, but your cover on Europe's mid-life crisis made me smile (March 17th). Given Europe's history over the past 50 years, instead of caricaturing a stereotypical middle-aged woman with sagging chin and bosom, would it not have been more appropriate to depict a balding man buying a sports car he can ill afford?

Erin Richard
Portsmouth, New Hampshire

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Robert Mugabe

The man behind the fist

Mar 29th 2007 | HARARE
From The Economist print edition

WPN

Zimbabwe's despotic leader, a man of puzzlingly different identities, is a past master at holding on

Get article background

IN AN African village, everyone is expected to work. From an early age children are taken to the fields and told to carry water or to hunt. Eight decades ago, when the land that is now Zimbabwe was run by British settlers, one small boy chose to toil for his family by taking on solitary tasks. Sent to herd cows, he would avoid other children and tramp off to isolated grazing spots. He would not scrap with the other boys, a traditional way of passing the time.

This weakling did not even play at hunting. Instead he would weave dry grass and reeds into small nets, stuffing them with feathers and moss. He would set his traps by a river and then wait for hours, resting with a book in the shade of a tree. Eventually he would snare a small bird or two, providing a tiny bit of protein for the family pot. None of this made him popular. He was bookish, a swot and very close to his mother. His father, a carpenter, had disappeared early.

Remarkably little is known about Robert Gabriel Mugabe, the man who has ruled Zimbabwe for nearly three decades and has led it, in that time, from impressive success to the most dramatic peacetime collapse of any country since Weimar Germany. Today Mr Mugabe is a near-parody of an African dictator. He sports a Hitleresque moustache. He waves his fists at campaign rallies, runs into crowds punching the air and spits personal abuse at his opponents. But his rivals and enemies have regularly underestimated him; and, in doing so, have made it all the harder to get him out of office.

His secret police, the much-feared Central Intelligence Organisation, spreads dread in the cities, especially the poorer townships, after dark. Early in March his goons hammered the country's opposition leader, a doughty but dull former trade-union leader, Morgan Tsvangirai, almost to death, provoking intense condemnation at home and abroad, but also successfully intimidating ordinary people. A gardener in Budiriro township near Harare describes how security men have harassed residents to stop street protests, even battering a pregnant woman until she lost her baby. On March 28th police again arrested Mr Tsvangirai.

The attacks on Mr Tsvangirai have improved his public standing—just as Mr Mugabe burnished his, long ago, by going to prison while fighting for an end to white rule. But another refrain did the rounds in Harare last week: if the leader of the opposition cannot guard himself, how can he protect his ordinary supporters if they dare to protest?

Young men are beaten regularly by police with truncheons known as knobkerries, long synonymous with repression in this part of the world. On March 27th a trade-union meeting in Mutare, in the east of the country, was stormed and broken up by police who claimed it was being held without permission. In the parks of Harare, groups of sullen security men with shotguns, rifles and riot gear can be seen lurking in the bushes. According to Chris Maroleng of the Institute for Security Studies, a South African research outfit, Mr Mugabe “has emptied out the state and filled it with the military”. He may yet preserve his tottering regime by brute force alone.

Mr Mugabe is certainly willing to resort to force when cornered. But as long as the deft bird-catcher has other choices, he is probably clever enough to limit the violence. Though widely hated, he has a gift for making people do as he says. For roughly a decade pundits have predicted his imminent departure from office—forced out by elections, a referendum, political protest. But each time Mr Mugabe has held on.

Many Zimbabweans, paradoxically, both despise and admire him. Charismatic, well-educated and genuinely clever, he is not merely a thuggish clown like Uganda's Idi Amin. His commitment to improving schools for all Zimbabweans is widely known. Less noted is his personal role in doing so: even as president, the former schoolteacher took time to give lessons to staff at State House, teaching some who have since become ministers. Though the country is ruined, Zimbabwe's streets still throng with boys and girls in neat school uniforms.

Yoga and sadza

Mr Mugabe is also a shrewd performer, switching from Shona to English to send different messages to different audiences. He exploits foreign condemnation of his rule so effectively that Britain's government, especially, now rarely comments on Zimbabwe. His playground jibes against the foreign leaders he dislikes—Britain's Tony Blair is “a boy in short trousers”—provoke laughter even among the hungry who want to see him gone. Next month his government plans to set up a 24-hour propaganda station, News24, to counter “negative publicity” from the West. “Nothing frightens me,” said Mr Mugabe at a meeting in Harare on March 23rd. “I make a stand and stand on principle here where I was born, here where I grew up, here where I fought and here where I shall die.”

At 83 he still works punishing hours, rarely returning from the office until late evening, and is sharper minded than most, perhaps all, of his many opponents. He is said to rise before dawn, well before the rest of his young family, and to start the day with yoga exercises. He is frugal, typically taking no breakfast but sipping tea throughout the day. His doctors say he is in formidable good health.

AFP

Under the boss's eye

Heidi Holland, the author of a forthcoming book, “Dinner with Mugabe”, who has interviewed many relatives and colleagues of the president, sees him as sprightly and canny. Whenever possible he eats *sadza*—the local maize porridge—with a relish of vegetables, usually with his hands in the traditional way of the Shona people. Unlike many African dictators, with their fierce appetites for booze, meat and women, Zimbabwe's leader is teetotal, a near-vegetarian and by all accounts faithful to Grace, his young second wife. His tailor notes that Mr Mugabe's measurements (he likes vents at the sides of his jackets and cannot abide double-breasted suits) have not altered in 20 years.

Yet the old man seems to be ever more isolated. Just as the boy had few friends, argues Ms Holland, the president has grown increasingly lonely. His first wife, Sally, a Ghanaian, was probably his closest friend and adviser. Former ministers recall how Mr Mugabe, when mulling a tricky problem, would announce “I'll ask Sally”, and the matter would be postponed until he had. Some date the beginning of Mr Mugabe's misrule, and the collapse of Zimbabwe, to her death in 1992, and his marriage to Grace, a former secretary, whose main preoccupation is shopping.

Certainly the president has grown touchy as the years have passed. One former cabinet minister, Jonathan Moyo, describes how Mr Mugabe fell into a fierce sulk after rivals suggested he quit, in 2006. For days the president refused even to meet any of his ministers and broke his silence only after his priest intervened. Others confirm his eerie ability to exert a “silent power”: refusing, for example, to say a word in one-on-one meetings, to the deep consternation of the other party.

Reuters

The future will be brighter without him

Today it seems that his isolation is growing, especially within the ruling Zanu-PF party. In December Mr Mugabe tried to convince his party to postpone next year's presidential elections until 2010, but the idea was not received with great enthusiasm, and the decision was delayed until a meeting of party leaders that is taking place this week. His one-time protégé, Emmerson Mnangagwa, who was so close to the president that he earned the moniker “Son of God”, is thought to be plotting with Solomon Mujuru, the former head of the army and husband of the current vice-president, to persuade Mr Mugabe to go. Both men have fallen out of favour with the president, and the country's economic meltdown is hurting their vast business interests. They are said to be talking not only to each other, but also to Mr Tsvangirai's Movement for Democratic Change (MDC), though Mr Mugabe has sidelined many rivals before. And neither man, if he were to become Zimbabwe's leader, would be likely to be any less dreadful for the country.

An English gentleman

The time may have come when Mr Mugabe's great age—the average Zimbabwean woman can expect to die at just 34, the average man at 37—is a liability. Usually in Africa age is treated with enormous respect. Yet some now describe the president with open scorn. “It is time for the *madala* to go,” says a resident of one township beside Harare, contemptuously using the Shona term for an old man. Mr Moyo snorts that “over the past few years Mugabe has lost his skills. Many are now saying this guy is a victim of old age.”

But pinning down Mr Mugabe and assessing his weakness has proved remarkably difficult over the years. The man is constantly able to reinvent himself. He is part African populist, prepared to snatch agricultural land from commercial farmers—and thereby destroying one of Africa's most successful economies—yet part Anglophile gentleman. Though neither the Zimbabwean leader, nor Britain's government, is particularly keen to admit it, Mr Mugabe is in large part the product of Western, especially British, values.

He dresses in Western suits and reads the foreign press regularly, though almost never the local papers. One close observer says he is often seen with *The Economist*. Despite his diatribes against imperialists, he has an almost fawning respect for British tradition. Visitors, including his tailor, are almost always offered a cup of tea. When Mr Mugabe entertained foreign journalists after the elections in 2005, he posed between two (rather tatty) stuffed lions at his colonial-era pile, as servants padded around with trays in the background. He takes pains to instil good manners in his young children, explaining that these are the manners of British royalty.

It is commonly said that Mr Mugabe can appear to be more English than the English. He loves cricket, and has long been the patron of the Zimbabwe Cricket Union. Until targeted sanctions prevented him doing so, his favourite pastime was to travel to London. At the end of white rule in 1980 he formed relatively close relationships with the British officials who oversaw the transition, sensibly agreeing not to

throw the white farmers out. When some of the farmers, in the late 1990s, started supporting Zimbabwe's opposition, Mr Mugabe felt betrayed by London.

If his identity is hard to pin down, his fears and hopes are easier to read. His greatest concern would seem to be avoiding an ignominious end while protecting his family. It is telling how Mr Mugabe has dealt with his predecessor, Ian Smith, the leader of white Rhodesia. He had strong reasons, both personal and political, for disliking him. He was imprisoned by the Smith regime, and was said to be particularly distraught when Mr Smith denied him permission to attend the funeral of his first son, who died at the age of four.

A degree in violence

Mr Mugabe is certainly still extremely bitter about this period. When asked in 2001 if he recognised that Zimbabweans were suffering because of his rule, he growled back that he had been jailed by Mr Smith and “we suffered more under the British.” Yet the cantankerous Mr Smith, who kept up his verbal attacks on Mr Mugabe for years, was never touched or encouraged to leave (though he voluntarily retired to South Africa a year or so ago).

Perhaps Mr Mugabe considered his white predecessor a spent force; more serious opponents were put down brutally. Even if Mr Mugabe treated Mr Smith gingerly, he has the blood of many others on his hands. He once boasted that, in addition to his seven academic degrees, he had a “degree in violence”. Rival leaders in the independence movement died mysteriously as Mr Mugabe took charge, one in a car crash but (some said) riddled with bullets. An opposition newspaper saw its printing press blown up and journalists tortured. Young opponents of the regime have been dragged to camps where women are raped and men are beaten.

One particular concern of Zimbabwe's leader is that he may face prosecution for overseeing the massacre of thousands of villagers by North Korean-trained soldiers in Matabeleland, in the south-west of the country, in the early 1980s. A bill calling for a new inquest into the *Gukurahundi*, as the killings were known (it means “the early rain that washes away the chaff”), is about to be introduced into parliament.

The opposition MDC, if it ever rules alone or in coalition (at the moment, it is too broke and divided even to organise mass protests), says it would not call on the state to try Mr Mugabe for these killings. But it wants either a private prosecution or a case brought in an international court. Many other instances of state-sanctioned murder and torture might be examined too, including those strange deaths of Mr Mugabe's rivals at the time of independence. Loss of immunity is one of the main costs, to him, of losing power; he could probably not be persuaded to go unless some comfortable deal for him was worked out in advance.

Yet he may be eased out eventually, not least because his African neighbours are increasingly embarrassed by him. The arrest and beating of opposition leaders has made it difficult for the region's leaders to sit on their hands. At an emergency meeting of the Southern African Development Community (SADC) this week, Zimbabwe was back at centre-stage. President Levy Mwanawasa of Zambia has put the matter bluntly: he compared Zimbabwe to the foundering of the *Titanic*, and said that quiet diplomacy had failed.

But African leaders are unlikely to get out their megaphones. Their mumbling and conciliation have continued. Only a few weeks ago, Mr Mugabe landed a power deal with Namibia that should help ease Zimbabwe's crippling power cuts. He also paid a recent visit to oil-rich Equatorial Guinea, which seems happy to assist. Angola has been rumoured to be ready to send paramilitaries to help retrain the Zimbabwean police, although both sides have now denied this.

So Mr Mugabe, for all his flaws, can still count on his anti-colonial credits across the region. Most important, he can still count on them in South Africa, though his relations with the ruling African National Congress are as sour as can be. He derides South Africa's president, Thabo Mbeki, whom he sees as a grey, cautious upstart (and who is a generation younger). Repeatedly Mr Mbeki has tried to broker talks between the opposition and the ruling party on power-sharing in Zimbabwe, while failing to offer any threats if Mr Mugabe does not agree. When Zimbabwe faced expulsion from the IMF, South Africa offered to help if the regime cleaned up its political and economic act. It was snubbed, and the central bank mopped up all the foreign exchange it could find to pay the IMF.

All in all, Mr Mbeki has been left looking foolish and powerless. Today South Africa provides Mr Mugabe

with the most effective international cover for his misrule, in part because Mr Mbeki, seeing in Zimbabwe a mirror of his own country, dreads the idea of a trade-union leader overturning the rule of an independence party.

The star and the sun

A more important relationship, however, may have been with Nelson Mandela. Some date the start of Mr Mugabe's misrule to the emergence of his rival as the great independence hero of Africa. Until Mr Mandela left his apartheid prison, in 1990, Mr Mugabe could do no wrong. He was feted as an anti-apartheid leader, a man who reconciled different races and presided over a shining economy. Mr Mugabe was the star of the region, but then the sun rose.

Mr Mandela promptly stole all his attention; South Africa's vastly bigger economy drew investment, press coverage, foreign plaudits. To Mr Mugabe's evident personal dismay, Zimbabwe was cast into the shade. Mr Mandela's biographer describes Mr Mugabe twitching with distaste and annoyance when the two men met, shortly after the South African won his freedom.

No love is lost between the two elder statesmen. Just as Mr Mandela emerged as the voice of reconciliation and modernity in Africa, Mr Mugabe reverted to populism, land-grabs and bashing foreigners. It is quite possible that Mr Mugabe, increasingly bitter, dreams of holding on to power long enough to see the back of some of his foreign rivals. He would love to be in office when (in the middle of the year, most probably) Mr Blair resigns. Mr Mbeki has only a couple of years to go. Mr Mandela's health is fading fast.

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The president and Congress

The war comes to Washington

Mar 29th 2007 | WASHINGTON, DC
From The Economist print edition

Reuters

Democrats are wrestling with the president over Iraq and much else

Get article background

THE war in Iraq has been pursued with “an arrogant self-delusion reminiscent of Vietnam” and is “destroying our military”. Young American soldiers are “kicking down doors [in Baghdad] with a bull's eye on their back”. The administration is demanding “lemming-like” obedience from Congress. Senator Chuck Hagel will have none of it. “We tried a monarchy once,” he growled on March 27th. “It's not suited to America.”

Such rhetoric would raise few eyebrows if it came from a Democrat. But Mr Hagel is a Republican. Indeed, he is expected to seek the Republican presidential nomination for 2008 (though he does not look very likely to win it). This was one of the most impassioned attacks that a prominent Republican has ever made on George Bush. And Mr Hagel added injury to insult by voting with the Democrats on a non-binding resolution setting a date (March 2008) by which American combat operations in Iraq must cease. Only one other Republican sided with the Democrats, who defeated by two votes a Republican effort to expunge the pull-out date from a bill providing an extra $122 billion for the campaigns in Iraq and Afghanistan.

The war about the war is intensifying, and the Democrats are playing chicken with the White House. Last week the House of Representatives passed a binding resolution calling for most American troops to leave Iraq by September 2008. As in the Senate bill, which is expected to come to a formal vote this week, the demand that American troops quit is attached to a bill providing funds to keep them there (the House bill provides for a slightly different figure, $124 billion).

This puts the president in a quandary. Once the two bills are reconciled into one and sent to his desk, he can veto it. If the fixed timetable for withdrawal remains, he promises to do just that. But if he does, it could leave him perilously short of money to carry on fighting. The wars in Iraq and Afghanistan are costing about $10 billion a month. And although the defence department has a budget of $440 billion, there is less wiggle room than that vast sum suggests, says Michael O'Hanlon of the Brookings Institution, a think-tank. The army could trim training, but that would seriously weaken soldiers' ability to recover between deployments. “By May or June, this gets desperate,” says Mr O'Hanlon.

AFP

All roads lead to Rove

The Democrats' position, however, is somewhat contradictory. They have pretty much decided that the war is lost. But they are not calling for the troops to come home for at least another year. The Democrats face a quandary, too. If Mr Bush stands his ground, will they really deny him the funding for troops in harm's way? Mr Bush can keep on spending without withdrawing any troops, and blame the Democrats when the Americans in Baghdad start running out of bullets and petrol, says Norman Ornstein of the American Enterprise Institute, a conservative think-tank. Few Democrats would want to shoulder such a responsibility, so many analysts expect that they will be the ones to blink first. On March 28th Mr Bush, who shows no sign of backing down, attacked the Democrats, declaring that “the American people will know who to hold responsible” if the war effort runs out of money, and repeating his threat to veto any bill with a deadline for withdrawal.

Democrats argue that fixing a date to pull out of Iraq will concentrate minds in Baghdad, forcing the Shia-dominated government to make the necessary compromises to ensure stability. Republicans agree that it will concentrate minds, but in a different way. If Iraqis know the Americans are going, this will give them an extra incentive to stockpile arms and purge their neighbourhoods of Sunnis (or Shias), in preparation for an unrestrained civil war once the Americans are gone.

Plus, giving up on Iraq would convince anti-American fanatics that they can defeat the superpower. John McCain, one of the two front-runners for the Republican presidential nomination, labelled the Senate bill the “Date Certain for Surrender Act”. He showed his Senate colleagues a map highlighting parts of Iraq that the troop surge appears to have calmed somewhat, and added that: “We must not...give up just at the moment we are starting to turn things around in Iraq.”

For now, nearly all Republicans in Congress are supporting the president, which means the Democrats have no chance of overriding his veto. The president's team draws considerable support from this. The Democrats have had enough trouble keeping their own caucus united. Some are pushing for even tougher anti-war legislation, while others have traded their support for pork. The Senate bill includes some $20 billion of non-military spending, including $100m for the two parties' conventions next year and $24m for sugar-beet growers. This does not look good.

However, Republican unity may not last. Even Republican voters are tiring of the war, as the general population did some time ago. A Gallup poll this week found that 60% of Americans favour a firm timetable to withdraw troops from Iraq by late 2008. But a similar majority are opposed to denying the funds needed to send over extra troops for the surge. In short, Americans think Mr Bush has got them into a mess, but they do not trust the Democrats to get them out of it.

If the surge succeeds, Mr Bush will probably be able to face down Congress. But if it fails, more Republican lawmakers will decide that they can no longer bind their electoral fortunes so closely to Mr Bush. Senator Chuck Schumer, a Democrat from New York, hinted this week that his party is playing a long game. “Every time we have a vote like this, it ratchets up the pressure,” he said.

The home front

That pressure is far from confined to Iraq. Across a whole range of issues—but particularly focusing on trade and the conduct of the war on terror at home and abroad—the Democratic majorities in Congress are confronting the president in a way that the compliant Republican Congresses he faced in his first six

years in office never dared to do. Although this is a good thing in many ways (an unsupervised government is more likely to commit blunders and excesses) it comes at a price. “This Congress seems more interested in investigation than legislation”, laments one observer, even though there is an urgent need for reform in many areas.

The main focus for the Democratic searchlight at the moment remains the attorney-general, Alberto Gonzales, for presiding over the firing last year of eight government prosecutors, allegedly because they refused to bow to political pressure in bringing (or halting) sensitive cases. The administration claims that the eight were removed for under-performance, among other reasons. But Mr Gonzales' own performance under congressional grilling has been so lamentable that few imagine he can survive.

Mr Gonzales is at the front of the firing line; indeed, some suspect, he is already being lined up as the next casualty, following Donald Rumsfeld, John Bolton and Lewis Libby, three hawks who have all lost their jobs in the past few months. But everyone knows the Democrats' real target: Karl Rove, the president's closest adviser and the man who has masterminded all of his election victories, in Texas and nationally. Desperate for his scalp, the Democrats want to subpoena Mr Rove: the president, citing executive privilege, refuses to give him up.

The hunt is now on for a smoking e-mail that will prove what many Democrats suspect: that Mr Rove ordered the firings of politically independent prosecutors. Already, a fresh scandal is brewing over Mr Rove's alleged use of private e-mail accounts running on his BlackBerry—rather than the official White House e-mail system, whose contents can easily be subpoenaed. Henry Waxman, the chairman of the House Oversight and Government Reform Committee and the Democrats' scourge-in-chief, is hot on the trail of these extra-mural e-mails. Mr Rove also narrowly escaped having to testify in Mr Libby's trial, which ended in the conviction this month of Dick Cheney's aide.

Does all this mean that nothing can be achieved in the last two years of the Bush presidency? Not necessarily. One way forward would be for the Republican congressional minority leaders to work more constructively with the Democratic leadership, in effect cutting the unpopular White House out of the loop. There are signs of this: the minority leader in the Senate, Mitch McConnell, is winning praise across the board for trying to forge intelligent bipartisan agreements, particularly in the area of immigration. But as the siege of the White House intensifies, his task gets ever harder.

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About sponsorship

Guantánamo

Justice shackled

Mar 29th 2007
From The Economist print edition

A flawed legal process begins

AP

Hicks in happier times

THE American military tribunals set up to pass judgment on terrorism suspects at Guantánamo Bay lurched into life this week when David Hicks, the “Australian Taliban”, unexpectedly pleaded guilty. The Pentagon will be relieved that the tribunals have started to show results after five years of controversy over the status of “enemy combatants”, claims of torture, the admissibility of forced confessions and a Supreme Court ruling last year that halted an earlier version of the tribunals. Yet the Hicks case is hardly an impressive start for America's offshore justice.

Critics say the 31-year-old Mr Hicks, a former kangaroo skinner and alleged al-Qaeda fighter, faces a “kangaroo court”. Two of his civilian lawyers were barred from the hearing on March 26th. His military lawyer, Major Michael Mori, has been threatened with prosecution for harshly criticising the tribunals.

The prosecutor, Colonel Morris Davis, said the defence lawyer may have breached military law that bans officers from using “contemptuous words” against the president or senior officials. Major Mori filed a counter-charge against the prosecution, saying it was trying to intimidate him. In the end the motion will not be heard because Mr Hicks, looking pale and bedraggled, admitted the charge of “providing material support for terrorism”. A charge of “attempted murder in violation of the laws of war” was dropped.

As *The Economist* went to press, the tribunal was due to hear details of his plea and pass sentence, which Mr Hicks is expected to serve out in Australia. His father, Terry Hicks, said his son had had “five years of absolute hell” since being captured in Afghanistan and allegedly suffering beatings, rape and forced injections in American custody—accusations rejected by the Pentagon. The guilty plea was just “a way to get home”, said Mr Hicks's father.

Many in Australia regard Mr Hicks as more of a lost soul than a dangerous terrorist (see article). Indeed, his charge sheet portrays him as little more than an al-Qaeda foot-soldier, and a poor one at that. His jihadi CV is pitiful compared with the evidence being given by some of the 14 “high value detainees” belatedly brought to Guantánamo from CIA secret prisons in September. They include al-Qaeda's operational chief, Khalid Sheikh Mohammed, who in a closed hearing to determine whether he was an “enemy combatant” earlier this month boasted that he had organised the September 11th attacks “from A to Z”, and 30 other plots. Meanwhile, Ahmed Ghalfan Ghailani and Waleed bin Atttash, from Tanzania and Yemen respectively, have admitted supplying equipment for the bombing of the American embassies in Kenya and Tanzania in 1998.

Many of these big names will face trial, and perhaps the death penalty. But the tribunals are expected to try only 60-80 of the more than 380 prisoners currently in Guantánamo. Over the years hundreds of detainees have been sent back to their countries, where some have been jailed and most have been released—and sometimes re-arrested.

The Bush administration says it wants to phase out and eventually close the jail. But it is unlikely to do so for some years, either because it lacks the evidence to prosecute detainees (even under the more lax military rules it is using), or because other countries are unwilling to take them back.

Indeed, a new detainee was brought this month from Kenya. According to the Pentagon, Abdul Malik has

admitted involvement in the bombing of a hotel in Mombasa and a failed attempt to shoot down an Israeli airliner in 2002.

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Transport in Chicago

Gridlock on the lake

Mar 29th 2007 | CHICAGO
From The Economist print edition

By neglecting its transport system, Chicago is gambling with its future

AS A thriving midwestern city, Chicago is still the beating heart of much of America's industry. But its arteries—both road and rail—are increasingly clogged. A report released earlier this month by Illinois's auditor, William Holland, highlighted some chronic glitches in the network of buses and commuter trains. The region also needs a better approach to highways and rail freight.

It is hard, of course, to co-ordinate commuter transport between an urban system and one that serves surrounding counties with a different tax base. Chicago's Regional Transportation Authority (RTA), which covers the six counties of the metropolitan area, is supposed to promote better planning and links among the city's system and a pair of others that run suburban train and bus networks. But it has clearly come up short so far. The RTA, Mr Holland's audit concluded, needs to wield a firmer hand, over budgets and in general.

No matter how the RTA allocates the pie, however, the current pot of money seems woefully inadequate. Operating costs have grown three times as fast as revenues over the past five years. Last month the RTA released a five-year “strategic plan” (otherwise known as a request for money) that called for, among other things, an extra $400m in annual operating funds and $10 billion in capital spending over the next five years. That will be a tough sell in the state legislature.

Freight traffic is arguably an even bigger problem. In this, Chicago is unique. Six of the country's seven biggest-earning railways converge there, and the city is still the hub for a staggering amount of trans-continental commerce. Managing logistics and supply chains for distant companies, as well as physically moving goods around at warehouses and inter-modal hubs, generates lots of jobs for the area. Chicago's ability to handle all this traffic is being badly stretched, however. Ann Drake, the head of DSC Logistics, says that west-east freight traffic continues to grow rapidly, as ever more goods from Asia try to make their way to the east coast.

Ms Drake's worry—and that of many others—is that Chicago's congestion will eventually cause many shipments to be rerouted around it, a process that could eat away its advantages. “We do not want to become another St Louis,” she says, gloomily invoking the city that lost its midwestern primacy to

Chicago after failing to invest in infrastructure.

Helpfully, many business and civic leaders are moving transport problems up their list of priorities. The Metropolitan Planning Council (MPC), which presses for a co-ordinated policy for the region's big issues, has done a good job of channelling their frustrations into useful ideas. But there is something odd about the way that many of Chicago's leaders talk about these problems. They invariably try to link their suggestions to grand or abstract ideas, such as being a “global city” or winning a bid to host the Olympics. The simpler need is to get goods and people moving.

The awful state of Chicago's transport comes home most plainly to drivers sitting stationary in their cars. The public debate over making drivers pay to use the roads has been as shallow in Chicago as in the rest of America. The argument tends to revolve around whether it makes more sense to use tolls and private enterprise to pay for better roads, or instead to keep charging taxpayers for a system that just limps along. By contrast, not much is said about the role that prices might play in altering the behaviour of both companies and commuters. MarySue Barrett, president of the MPC, says that her outfit hopes to make road pricing a bigger part of that debate.

Hostility towards road pricing might be understandable in other parts of America. But one of Chicago's proudest feats was the creation of financial futures markets, which prompted far-flung firms and farmers to adjust their behaviour to the slightest twitch in the price of pork futures or Canadian dollars. Surely the system would work for Chicago commuters as well.

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Teachers in Missouri

Classroom discipline

Mar 29th 2007 | ST LOUIS
From The Economist print edition

Chaos in one big city's schools

AP

The children's resistance

A CURIOUS election will take place in St Louis on April 3rd. Seven candidates will compete for two seats on the city's school board. The polls will open at 6am and stay open until 7pm. Staffing the polling stations and counting the electronic ballots will cost taxpayers at least $260,000. Two happy candidates will celebrate and take office—just in time to have the state of Missouri complete the takeover of the district's schools and give them and the other board members nothing to do for several years.

This election to nothing comes after years of falling test scores, revolving superintendents, screaming matches between board members at public meetings and a growing dissatisfaction with every aspect of public education. The state board of education voted on March 22nd to take over the school district, effective in mid-June. Some prominent figures endorsed this course, including the mayor of St Louis, Francis Slay, and even some members of the St Louis school board. Others in the city, though, are deeply opposed and ready to fight about it.

Although the city schools overall have an amply deserved reputation for low standards, there are some good schools and many good students. The best students have the most to lose, fearing that the turmoil could damage their chances of getting into good universities. In mid-March a group of high-school pupils, backed by their superintendent, Diana Bourisaw, occupied Mr Slay's office for five days. When the state education board voted on the takeover, a group of angry students, teachers and other members of the public tried to disrupt the meeting. Protesters are still trying to use the courts to stop the action, and the teachers' union has threatened a strike.

Under Missouri law the city's schools will now be placed under a three-member board appointed by the governor, the mayor and the president of the board of aldermen. Governor Matt Blunt's choice of Rick Sullivan, the head of a building firm, has already been attacked because of Mr Sullivan's lack of experience in education and because he lives in one of the wealthiest suburbs outside the city. Blacks say their political power has been diluted.

Mr Sullivan and the other members, who have yet to be appointed, have an almost impossible task before them. The district, which in the past five years has turned a $52m surplus into a $24.5m deficit, has already closed schools, cut services and squeezed spending hard. But as its critics point out, the elected school board still found plenty of money for junkets and public relations.

The trickle of voters turning out for the pointless board election will pass banners celebrating the new season of the world baseball champions, the St Louis Cardinals. St Louis has made huge progress in attracting a new generation of young professionals to its downtown area, building new business developments and installing new infrastructure. The fiasco in its schools puts all that in jeopardy.

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The war on shopping bags

Plastics of evil

Mar 29th 2007 | SAN FRANCISCO
From The Economist print edition

San Francisco swaps polyethylene for potato starch

“THIS day has been long in coming,” declared Ross Mirkarimi on the steps of San Francisco's City Hall this week, flanked by compost bins and boxes of re-usable cloth bags. “We can take the steps to make our economy just a little more soulful. Karma is with us.” The city he helps govern, in short, is ridding itself of the plastic shopping bag.

And quite right, too. They get caught in trees (hence the epithet “Witches' Knickers”), take hundreds of years to decompose and push up demand for oil, used to make plastics. Outlawing plastic bags in San Francisco alone will reduce oil consumption by nearly 800,000 gallons a year, the city reckons. Less than 5% of the 100 billion bags thrown away by Americans each year are recycled.

Jared Blumenfeld, head of the city's environment department, says the ban will reduce litter and the cost of clearing it: sending a worker out to pull bags from trees costs up to $150 a time. And the recycled-paper and compostable bags that must be used from now on—made from corn starch or potato starch—will help to shift food waste from landfill to compost bins. People would do a lot more composting, he says, if they had biodegradable bags to help them. He expects the move to bring San Francisco's overall recycling rate—at 69% more than twice New York's—close to 80%.

Other cities may now follow suit. Los Angeles, Santa Monica, Oakland and, naturally, Berkeley are exploring similar moves. There is some talk of restrictions or a tax in New York. The plastic-bag lobby fought hard to stop a ban in San Francisco precisely because it feared that defeat there would start a nationwide trend.

This is one area of greenery where California cannot claim to be the global leader. In Taiwan and Ireland, you pay for plastic bags. They have been banned already in Rwanda, Bhutan, Bangladesh (where they cause flooding by blocking drains), South Africa (where distributing them can land you in jail) and Mumbai. Paris will join the list at the end of this year, the rest of France in 2010. But bags are only the start: much more landfill is taken up with packaging. Now that would be some good karma.

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Immigration in California

Escape from LA

Mar 29th 2007 | LOS ANGELES AND SAN BERNARDINO
From The Economist print edition

Los Angeles is losing its illegal immigrants. That's bad news

FEW American neighbourhoods are so exuberantly Mexican as Boyle Heights in east Los Angeles. Paintings of the Virgin Mary adorn walls around César Chávez Avenue. Local shops advertise *productos oaxaqueños*. Immigrants from south of the border, particularly the kind who carry dodgy Social Security cards, still fetch up in the area. But not as often as they did, according to Nativo Lopez, a Hispanic political activist who keeps an office in Boyle Heights. “This is no longer the west coast Ellis Island,” he says.

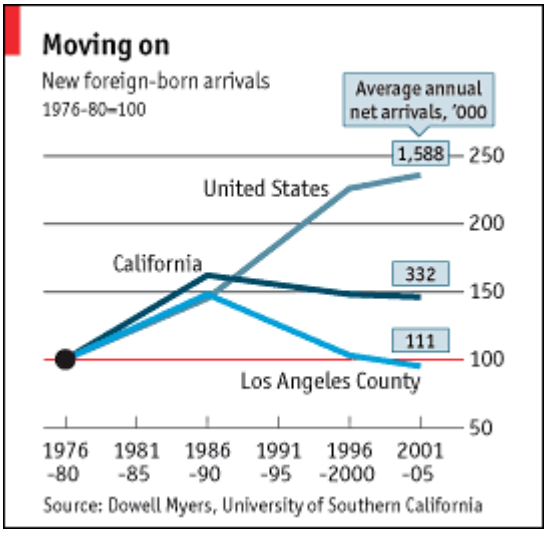
Just under 1m illegal immigrants are thought to live in Los Angeles County. That is twice as many as in any other American metropolis. Yet the number may have peaked. This month the Urban Institute, a think-tank, estimated that the county lost some 15,000 illicit residents between 2002 and 2004. In the same period America as a whole added more than 1m. Los Angeles's illegal immigrants are relatively old (only 42% are under 30, compared with 49% nationwide) and more likely to have American children. That suggests many will soon become citizens.

There are two reasons for this change. The first is that people who steal across the border or quietly outstay their visas now avoid Los Angeles, just as they increasingly bypass other traditional gateways such as New York and Chicago. The number of immigrants, both legal and illegal, arriving in Los Angeles has fallen since 1990 (see chart). In that year one out of every six recent immigrants lived in the metropolis. By 2005 the proportion was one in 14.

Increasingly, Mexican immigrants instead head to midwestern and southern states such as Ohio, Georgia and Texas. Construction sites and meat-packing plants there used to recruit many Hispanic labourers from California and other American states, says Jeffrey Passel, a demographer at the Pew Hispanic Centre. Now they are more likely to draw people from south of the border. Few people associate Dallas with illegal immigrants, but the Texas city has more of them as a proportion of its population than does Los Angeles.

The second reason why the number of illegal immigrants in Los Angeles has levelled off is that many are leaving the city. Emilio

Amaya, who counsels unauthorised immigrants in San Bernardino, 55 miles (90km) east of downtown Los Angeles, says that between two- and three-tenths of his clients report that they moved there from the city. San Bernardino is currently 56% Hispanic, and growing.



The migrants are lured partly by a boom in unskilled jobs. San Bernardino and Riverside Counties process much of the cargo that arrives in the ports of Los Angeles and Long Beach. As trade with China increases, so does the need for huge warehouses—one, currently under construction, is the size of eight Manhattan city blocks—and workers to build and toil in them. These two dusty, sprawling counties, together known as the Inland Empire, are doing something that is almost unheard of in America these days: creating manufacturing jobs.

There are other good reasons to leave Los Angeles. Maria, who moved out before she became a permanent resident and is now studying for a citizenship test in a San Bernardino shopping mall, provides three. Housing is much cheaper there than in Los Angeles, she says. The schools are better. And local gangs, although they are growing, are not nearly as entrenched as they are in the big city.

In short, illegal immigrants are leaving Los Angeles for the same reasons most people do. The difference is that their new neighbours are unlikely to welcome them with open arms. Several towns in the Inland Empire have passed resolutions against illegal immigrants and the companies that hire them. Wehirealiens.com, a website that collects allegations against employers, was founded by a software developer in Riverside County. By following jobs from cities to suburbs and small towns, illegal immigrants often move from staunchly Democratic districts to strongly Republican ones.

Rob Paral, a researcher, has used census returns to estimate the numbers of illegal immigrants who were living in various congressional districts in 2005. His work supports the argument, often made by proponents of more liberal immigration laws, that illicit workers tend to reside in Democratic areas. But it also shows that this pattern is changing fast. Between 2000 and 2005 the number of illegal immigrants in California's Democratic districts grew by 8%. In Republican areas the illegal population swelled by 36%.

The same trend is evident elsewhere. The 15th congressional district in Harlem, one of the most invincibly Democratic places in New York or anywhere else, seems to have shed illegals. So has the district on the northern edge of Chicago that elected Rahm Emanuel, a powerful Democrat. Meanwhile, the number of illegal immigrants went up by 50% in the mostly suburban Illinois constituency of Dennis Hastert, the former Republican speaker of the House of Representatives. Indeed, across America, where comparisons are possible, Democratic districts added undocumented residents at half the rate of Republican ones. That helps to explain why Republican candidates talked so much about illegal immigration before last year's mid-term elections.

In some ways, the disappearance of illegal immigrants is good news for Los Angeles. It takes pressure off public services: the proportion of schoolchildren who are classified as “English learners”, for example, has fallen from a peak of 47% in the mid-1990s to 41% today. And it makes it easier for the city's large Hispanic population to rise into the middle class. As a group, Hispanics had been weighed down by poorly educated new arrivals.

Yet the fact that people are being drawn away from places like Los Angeles is worrying, too. Illegal immigrants are the canaries in the economic coal mine, sensitive to the slightest changes in the job market. Their presence in a city may cause problems, but their departure suggests that a place is losing some of its economic dynamism. After all, most cities, if they could choose, would rather have San Bernardino's problems than Harlem's.

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Lexington

The frowning clown

Mar 29th 2007
From The Economist print edition

Kevin Kallaugher

Other satirists skewer politicians. Stephen Colbert goads them to skewer themselves

FOR a politician, appearing on a live television news programme can be gruelling, but at least the ground rules are fair. The interviewer will pitch hard questions, but not ridiculous ones, and your replies will be broadcast in their entirety. Not so if you appear on “The Colbert Report”, a satirical show on Comedy Central, a cable channel. The host, Stephen Colbert, typically spends two hours pitching questions such as: “If you could embalm anyone in Congress, who would it be?” (This was to Phil Hare, a Democratic congressman from Illinois who once considered becoming a mortician.) Mr Colbert edits the footage down to the funniest five minutes and broadcasts it. Under these rules no politician, no matter how quick-witted, can win.

Which is why Rahm Emanuel, the House Democrats' chief enforcer, recently advised newly-elected Democratic lawmakers to steer clear of the show. Mr Colbert responded in his usual measured way. “There is a new witch hunt in Washington. First they went after Scooter Libby. Then it was attorney-general Alberto Gonzales. And now the Democratic leadership has unleashed a vicious attack on everything America holds dear: me.” He went on: “I know what you're thinking, nation. Why would Emmanuelle, whose erotic adventures taught a generation the elusive art of sensual love, return from space to counsel freshman congressmen?” And so on. Mr Colbert ended the segment by offering Mr Emanuel a replacement for the middle finger he lost in a meat-slicer as a teenager—poking out of a box, raised.

“The Colbert Report” is probably the most popular satire show among political junkies. Comedians with larger, less well-informed audiences, such as Jay Leno, have to keep their political quips short and focused on figures with flaws everyone knows—like Bill Clinton's lechery or George Bush's grammatical problems. Mr Colbert faces no such constraints. His jokes are aimed at people who would never watch Bill O'Reilly's conservative rant of a cable news show on Fox, but who recognise Mr Colbert's obnoxious on-screen persona as a parody of Mr O'Reilly because they have read about Mr O'Reilly in the *New Yorker*. The 1.2m viewers Mr Colbert attracts each night may be small by network standards, but they are young, educated and attractive to advertisers.

Politicians appear on “The Colbert Report” for the same reason that ordinary people agree to appear on

reality shows: it may be undignified, but it gets you on television. For a big shot like Mr Emanuel, who can attract a camera any time he wants, the indignity obviously outweighs the publicity. But for politicians no one has heard of, it may not. There are 435 members of the House of Representatives, and Mr Colbert says he plans to interview them all, one by one, for a series of segments called “Better Know a District”.

Some end up looking fools. Mr Colbert floored Lynn Westmoreland, a Republican from Georgia who co-sponsored a bill to have the Ten Commandments displayed in the Capitol, simply by asking him to name the Ten Commandments. Viewers saw him recite three. His spokesman says he managed seven in all.

By contrast, most of the Democrats who appear on “The Colbert Report” end up looking like good sports. John Yarmuth of Kentucky was joshed into advocating tossing kittens into a wood-chipper: “sometimes the only thing that you can do, [if] you don't have a shovel.” Robert Wexler of Florida confessed to liking cocaine and prostitutes: “It's a fun thing to do.” Such spectacles may make Mr Emanuel squirm, but viewers know it's all a joke. Mr Colbert extracted Mr Wexler's “confession” by pointing out that he was running unopposed for re-election and daring him to say something that might otherwise cause him to lose, by completing the sentence “I like cocaine because...”.

The Democratic advantage

Mr Colbert is equally rude to all his guests. But because he is pretending to be a deranged right-winger, his questions about policy are much easier for liberals to parry. Last week he sparred with Eleanor Holmes Norton, the non-voting Democratic representative for Washington, DC, about whether DC residents should be allowed the same voting rights as other Americans. To Ms Holmes Norton, who is black, Mr Colbert said: “Do we not have more important things to do than worry about whether all of our citizens get a vote?” Against such a foil, Ms Holmes Norton could hardly help sounding reasonable.

Republicans, on the other hand, tend to be flummoxed when Mr Colbert enthusiastically agrees with a point somewhat more extreme than the one they were making. Jack Kingston, a Republican from Georgia, complained about Democratic plans to make congressmen work a full five-day week in Washington. That would mean less time with their families, he told the *Washington Post*, but “Democrats could care less about families.” Mr Colbert suggested that the five days could include Sunday, thus keeping lawmakers out of church, too, because “Democrats hate God.” “I hadn't thought about that,” said Mr Kingston. “But that would kill two birds with one stone.”

An odd thing about political satire in America is that it is directed nearly as much at the media as at politicians. Headlines in the *Onion*, a spoof newspaper (“[Clinton] feels nation's pain, breasts”), would not be so funny if those in the *New York Times* were not so ponderous. Mr Colbert's show would make no sense if cable-news blowhards such as Mr O'Reilly did not exist. The post-modernity of it all was illustrated when Mr O'Reilly actually appeared on “The Colbert Report” and jokingly admitted that his aggressive on-screen persona was “all an act”. Mr Colbert replied: “If you're an act, then what am I?”

By coincidence, our latest contribution to political satire, an animated “Digital Dubya” by our editorial cartoonist, KAL, appears here

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Canada

Au revoir separatism, bonjour “autonomy”

Mar 29th 2007 | MONTREAL
From The Economist print edition

Peter Schrank

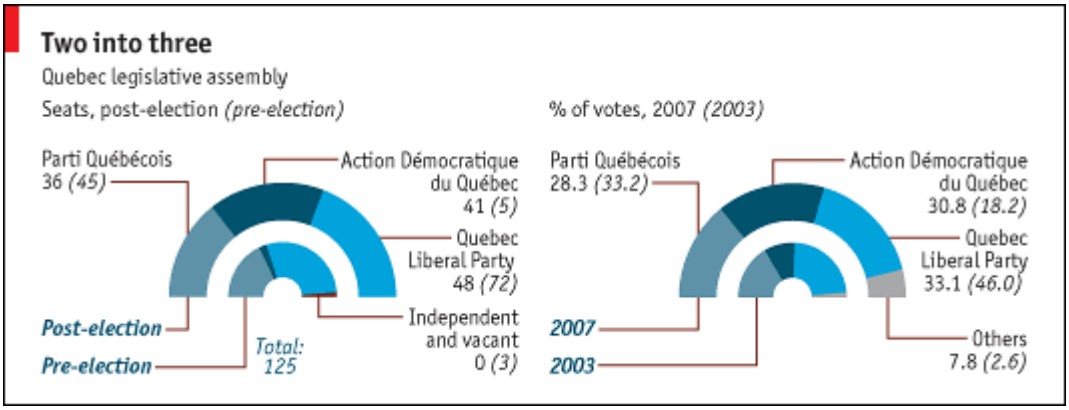
Quebec's voters have turned their province's politics upside down, and may have reshaped those of Canada

Get article background

AT FIRST sight, Quebec's provincial election altered nothing. Jean Charest, the plodding federalist who leads the Quebec Liberal Party, will remain in office as provincial premier. Yet almost everything else has changed. The separatist Parti Québécois (PQ) has suffered a possibly terminal drubbing. With that, the federalist-separatist divide that has defined the French-speaking province's politics and infected the politics of the rest of English-speaking Canada for more than a generation may become a thing of the past.

In its place there is a new party, Action Démocratique du Québec (ADQ), and a new demand for “autonomy”—whatever that might mean. And in the short term, at least, the rise of the ADQ may also redraw Canada's political map in favour of Stephen Harper, the federal Conservative prime minister.

In any other election in Quebec over the past century the Liberal haul of just 48 seats would have sent Mr Charest to the unemployment office. But the surge in support for the ADQ has turned a two-party system into a tripartite one (see chart). Mr Charest will head the province's first minority government since 1878.



The ADQ and its leader, Mario Dumont, were the real winners of the election. Where the Parti Québécois is social-democrat and wants independence, the ADQ is conservative and moderately nationalist. Only six months ago, it was written off as a one-man band. During the campaign Mr Dumont was plagued by the ill-chosen remarks of ill-chosen candidates. One pooh-poohed violence against women, another attacked immigrants who didn't embrace Quebec ways, a third accused Jews of starting wars as a means to enrich themselves. And Mr Dumont's party was heavily outspent by the Liberals and the Parti Québécois.

That it nevertheless pushed the PQ into third place and its worst result since its debut in 1970 was in part a personal triumph for the politically deft Mr Dumont, a former Liberal aged only 36. But he also tapped a wider desire for change.

Like an increasing number of Quebeckers, Mr Dumont refuses to define himself as either a federalist or a separatist. Instead, he and his party favour “autonomy”—that Quebec should stay in Canada but with increased powers. What he really advocates is setting aside the stale argument over Quebec's relationship with Canada and moving on to other matters.

This stance was never taken very seriously by Montreal's chattering classes. But along with Mr Dumont's conservative platform, it seems to have resonated with French-speakers elsewhere in the province, in the suburbs and farming areas and even in Quebec City. Voters in these places usually decide Quebec's elections.

In the past they have often backed the Parti Québécois, which twice held referendums on independence and came within a few thousand votes of winning one of them in 1995. This time the PQ's promise to hold another referendum if elected put many voters off, perhaps for good. The PQ's slide will continue, predicts Vincent Lemieux, a veteran political scientist: “I don't think they'll ever govern again.” He says that Quebec's main nationalist parties tend to last a generation before being supplanted by another with a different vision. The PQ, which grew out of the radical post-colonial fervour of the 1960s, may just find its time is up.

It was not helped by its newish young leader, André Boisclair. His Milan suits, open homosexuality and use of cocaine while a cabinet minister turned off many traditionalists. Some of them stayed at home, while others switched to the ADQ. In defeat, Mr Boisclair said he would stay as leader and argue for the PQ to reconsider some of its policies. But the party may find it easier to change its leader than to begin a debate about its raison d'être of independence.

The rise of the ADQ also confirms a drift to the right in Quebec. The party's platform featured support for the family, slashing welfare, a greater role for private health care and vague calls that immigrants conform to local customs. Its role as the official opposition could mean, paradoxically, that Mr Charest's second term is easier than his first, despite having lost his majority. Mr Charest, a former leader of the federal Conservatives, tried to slim down government but was often frustrated by the PQ and its trade-union allies.

The election was good news, too, for Mr Harper in Ottawa. In this month's budget, his government offered extra money to Quebec in a transparent effort to show that federalism can work. With a supporter in Mr Charest and an admirer in Mr Dumont, Mr Harper may be encouraged to call an election himself. He, too, heads a minority government and believes that the road to a majority runs through Quebec.

But in the longer run, Quebec's vote may pose new questions. One is whether separatism is quite as moribund as it now seems. The other, if it is, is what “autonomy” means in practice, beyond demands for

yet more cash from Ottawa.

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Chile

Bachelet tries again

Mar 29th 2007 | SANTIAGO
From The Economist print edition

After an unimpressive year, a reshuffle

Get article background

SHE floated to office a year ago in a warm bubble of popularity. But not much has since gone right for Michelle Bachelet, a Socialist who is Chile's first woman president. Her difficulties began with unexpectedly multitudinous protests by schoolchildren. They have included a slowdown in economic growth, from 5.7% in 2005 to 4% last year, which some Chileans think may reflect lack of confidence in the government. They culminated in a botched new bus system in Santiago, the capital, which has frayed tempers.

Not all of this is the president's fault, but it has happened on her watch. Ms Bachelet's warm rapport with voters made her a good campaigner. Yet many politicians, not just of the opposition but also in the ruling centre-left coalition known as the Concertación, had long said that she lacked the skills needed to govern effectively. That perception now seems to have spread. In a poll in March by *La Tercera*, a newspaper, 71% of respondents thought that the president had little authority and 61% lacked confidence in her capacity to handle a crisis.

AP

The president says sorry

On March 26th a chastened Ms Bachelet apologised to the public for the foul-ups of Transantiago, the new bus system, and reshuffled her cabinet for the second time. But will that do the trick? The changes have been welcomed. The new transport minister, René Cortázar, is an experienced Christian Democrat. But sorting out Transantiago will be a long haul: it is dogged by a shortage of buses and bus lanes, and the satellite-navigation system supposed to control bus schedules is not working.

The new political co-ordinator, José Antonio Viera-Gallo, is a former Socialist senator who has the political experience, contacts and intellectual weight that Ms Bachelet herself lacks. Some hope that Mr Viera-Gallo will assume the role of de facto prime minister.

The government can point to some achievements. It has drawn up and sent to Congress a reform of the private-pension system, an important and politically complex issue. It has opened 800 new childcare centres and extended a low-cost health-care scheme. After some initial difficulties, it has ridden out the problems caused by Argentina cutting Chile's imports of natural gas.

But Ms Bachelet may have overestimated Chileans' appetite for change. The government could have prepared the public better for the new transport system, which is not as bad as the griping suggests. Some of the criticism of the president may be motivated by *machismo*, but she in turn has encouraged it with gesture politics.

She inherited Latin America's strongest political coalition, yet she promised to reach over the heads of its parties and create a “government of citizens”. At first she insisted on appointing a cabinet with an equal number of men and women, picking ministers without regard for their political skills or for their party. After a year, however, people want results rather than just empathy and a smile, Jaime Ravinet, a leading Christian Democrat, admitted in a recent newspaper interview.

At least the reshuffle gives the president an opportunity for a new start. Whether she seizes it is another

matter. Her critics in the Concertación say she has not let her ministers govern, trusting instead in a hermetic group of personal advisers of no great ability.

Her next challenge may be public order. The government has played down sometimes violent protests over Transantiago. The schoolchildren and students remain restless. Far-left groups have resurfaced, some of which may be armed. Despite the backbiting, the economy remains robust. Chile's democracy is stable and increasingly vigorous—it took the death last year of Augusto Pinochet, the former dictator, in its stride. But the previous Concertación governments did not take these things for granted.

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Guatemala

Before the sunrise

Mar 29th 2007 | GUATEMALA CITY
From The Economist print edition

Breezes of change in a troubled country

RIGOBERTA MENCHÚ is running for president, and her dogs are running around. She is at her house in a run-down gated community in the suburbs of Guatemala City. She sits in the courtyard, dressed in a traditional Mayan multicoloured shirt and skirt. Soon two of the puppies start playing with an empty bottle of Johnnie Walker whisky lying in a corner of the courtyard.

Ms Menchú, who won the Nobel Peace Prize in 1992 for her indigenous-rights activism, is not a typical politician. “Guatemala is in a profound crisis,” she says. That hackneyed assertion is one of the few points the dozen other candidates in September's presidential election would agree with her about. A decade after a peace accord ended a 36-year civil war in which almost 200,000 people died, Guatemala is struggling to make democracy work.

The most immediate problem is organised crime and its penetration of the security forces. On March 26th the interior minister resigned after a vote of no-confidence in the Congress. That was prompted by the murder of three members of the Central American Parliament from neighbouring El Salvador. Their bodies, together with that of their driver, were found shot and burned on a country road. One of the legislators was Eduardo D'Aubuisson, whose father was notorious as a death-squad organiser but went on to found Arena, El Salvador's conservative ruling party.

Four Guatemalan policemen were soon arrested over the killings. Days later they were themselves murdered in murky circumstances in what purported to be one of the country's most secure jails. The prison's warden has been arrested; a top police officer has fled the country.

Murders, many of them drug-related, increase from one year to the next. Human-rights campaigners say that impunity rules, both in the streets and in police stations. Yet there are flickers of progress. Last year the reformist government of Oscar Berger took back a large prison farm that had been in the hands of criminal gangs for more than a decade.

One cause of Guatemala's difficulties is that the better-off have traditionally objected to paying enough taxes to finance a modern state. But although the tax take remains below 12% of GDP, it has been rising steadily, according to Neeta Sirur of the World Bank. A purge last year of the customs service, now run by better-trained staff, is part of the reason.

Politics is starting to change, too. Until recently it had been a monopoly of the *ladinos* (people of European or mixed ancestry), even though some 40% of Guatemala's population of 13m is of Mayan descent. Indigenous politicians have begun to make headway in Congress and as mayors.

Ms Menchú is the first Mayan Guatemalan to run for president. Eduardo Stein, the vice-president, says that a candidacy like hers would have been impossible even five years ago. She calls herself a close friend of Evo Morales, Bolivia's president, who is also of indigenous descent. She invokes Mayan teleology, saying “we are in a dark period before sunrise.” Tellingly, she adds that the new era won't start until 2012 or so—the date of the subsequent presidential election.

That may be realistic. On the face of things, Ms Menchú has little chance of winning. Some Guatemalans mistrust her because of her past association with the Marxist guerrillas; others criticise her recent closeness to Mr Berger's government. Her party is new, she lacks government experience and she seems to have few ideas about policy. One recent poll gave her only 4% of the vote, though that may rise. The early front-runner is Álvaro Colom, a candidate of the centre-left who lost to Mr Berger in 2003. But as democracy takes root, it would be surprising if change were not to come, sooner or later.

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Education in Peru

When teacher is a dunce

Mar 29th 2007 | LIMA
From The Economist print edition

A long-overdue attempt to raise the quality of schooling

JUST for a change this month, when Peru's schoolchildren trooped miserably back to their classrooms after the summer holiday, they were not faced with a teachers' strike. Instead, the leaders of SUTEP, as the teachers' union is called, meekly offered to work with the education ministry to improve the quality of teaching.

That marks an important victory for the centrist government of Alan García—one that may be noticed across a region whose educational standards lag those of many Asian countries. Peru has done relatively well at getting children into school: over 90% complete primary and two-thirds secondary schooling, a better record than in richer Argentina and Mexico. The problem is that Peruvians do not learn much in the classroom. When it entered a 43-country international test in 2000, Peru came bottom of the class, well behind even the other Latin American participants.

There are several reasons for that. Alberto Fujimori, the country's president of 1990-2000, built lots of schools but gave no thought to education. Today, four-fifths of schools are in poor repair, obliging the government to promise to spend $100m this year fixing them. Education spending is rising, but at 3.3% of GDP this year it remains below the regional average. Alejandro Toledo, Mr García's predecessor, doubled teachers' salaries (to an average of $350 a month) but did not tie that to higher standards.

In December, the education ministry announced that all teachers would have to take a proficiency exam. SUTEP's leaders, most of whom belong to radical Marxist parties, have long rejected teacher evaluation. They got hold of a copy of the exam and posted it on their website. That was “the most serious mistake” in SUTEP's history, in the view of José Chang, the education minister. “They lost what little confidence the public still had in the union.”

The ministry rewrote the exam and required the country's 250,000 teachers to sit it in January. Four out of five of them did, in defiance of the union's boycott. Almost half of those who sat the exam were unable to solve elementary maths questions and a third failed a reading comprehension test.

The government has gone on to limit SUTEP's perks. It says it will no longer deduct union dues from teachers' pay cheques and has ordered 300 union leaders to return to the classroom or lose their salaries. It is also launching a pilot plan to decentralise the education system, giving control to local government. These moves are long overdue. By dint of them, Mr Chang, a former university rector, has become Mr García's most popular minister. Still, it is one thing to expose the teachers' limitations. More must be done to provide Peru's children with the teaching they deserve.

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Vietnam

Plenty to smile about

Mar 29th 2007 | BANGKOK AND HO CHI MINH CITY
From The Economist print edition

But despite its successes, Vietnam's ruling Communist Party remains terrified of any challenge to its monopoly on power

Corbis

A SUSTAINED boom, with annual economic growth consistently around 7-8% since 2000, has transformed Vietnam. Ho Chi Minh City (Saigon), its largest conurbation, is bustling, confident and expanding fast. Its fancy restaurants and designer shops are not just for the increasing numbers of foreign tourists and businessmen. The middle class seems broader, and the gap between rich and poor narrower, than in many other South-East Asian cities.

It is over 20 years since Vietnam's ruling communists abandoned collectivism and embarked on their *doi moi* market-based reforms, not unlike those China adopted a few years earlier. The country has come far since then. In Hanoi, the capital, food was rationed in the gloomy pre-reform era, and even senior officials wore threadbare clothes. “Boat people” were washing up on foreign shores.

Vietnam does not have the billion-plus populations of China and India. But with 84m people, it is no minnow. It is a serious contender in the world economy, especially since joining the World Trade Organisation this year. It has become Brazil's main rival in coffee exporting and Thailand's in rice. Vietnam is one of Asia's most open economies: two-way trade is around 160% of GDP, more than twice the ratio for China and over four times India's.

The country has put the wars of the 1960s and 1970s behind it. Americans are welcome these days, especially if they bring dollars to invest. Likewise, an ancient animosity with China—a frequent invader down the centuries—has been put aside in the interests of prosperity.

Reform has come in fits and starts since *doi moi* began but, at present, Vietnam's palpable success encourages boldness. The National Assembly this week urged the government to press on with building a market economy. The government in turn is pressing state firms for faster privatisation plans. Vietnam had only begun opening when Asia's 1997 economic storm hit, so, unlike some of its neighbours (see article), it was largely unscathed, and growth has accelerated since.

Where did it all go right? Observers detect a strengthening will to win among the Vietnamese but struggle to explain it. One factor is the self-confidence that comes from having, as they see it, beaten off three world powers (America, China and France) in the past half-century. There is also Confucianism: Vietnam

has kept some useful bits, such as the belief in education and self-betterment, without the feudalistic overtones. And success has bred success—liberalisation is producing prosperity, encouraging further reform.

Vietnam has a corruption problem but is taking serious steps to tackle it. A former deputy trade minister was jailed last week for 14 years for bribery—the latest among dozens of top officials given stiff penalties for dishonesty. The armed forces, such a baleful influence in some countries, are fairly clean. Many Asian economies are sucked dry by entrenched, predatory elites. In Vietnam, although collectivist economics have gone, the government remains collective and consensual. Leadership is shared between the party boss, president and prime minister. No personality cults are allowed, other than the one idolising Ho Chi Minh, the revolutionary leader, who died in 1969.

The Vietnamese are enjoying new-found wealth and personal choice, including being allowed to educate their children abroad. Party bosses, conscious of what happened to their former backers in the deceased Soviet Union, realise that they must keep the people happy to stay in power. So far it is working. “Right now people don't think about politics,” says Nguyen Kim Dinh, a former city-government worker who now plays Vietnam's stockmarket full-time. “They just think about earning money.”

Even so, the National Assembly, once a rubber stamp, has become a forum for real debate and scrutiny. Serious criticisms of the government are aired and reported in the press. A record number of self-nominated candidates are standing in the Assembly elections due in May.

However, the party remains terrified of the slightest challenge to its monopoly on power. The press is to remain party-run and independent candidates for the election must still be party-approved. The government claims no one is arrested for his political views, but in reality it treats pro-democracy activists as common criminals, jailing them for supposed spying or sabotage. In February charges were laid against Nguyen Van Ly, a dissident priest who founded Block 8406, a new and apparently widely supported group which last year issued a manifesto for democracy.

“The dissidents are getting bolder,” says Nguyen Manh Hung, an America-based Vietnamese academic. But Carl Thayer, a veteran Vietnam-watcher from the Australian Defence Force Academy, reckons that stronger pressure is coming from reformers inside the party, whose demands are remarkably similar to the dissidents'. Either way, as the Vietnamese enjoy more economic freedom and as more exiled Vietnamese return, bringing foreign ideas of pluralism and free speech, expectations of political liberty will grow.

If so, the ruling party has several regional models from which it can choose. In prosperous Singapore, the People's Action Party allows opposition parties to operate within strict constraints. In prosperous Taiwan, the Kuomintang has abandoned absolute rule for genuine alternation of power. But despite Vietnam's economic success there is little sign to date that the ruling party feels sure enough of its popularity to permit genuine political competition. Fear can be a habit for the ruler, as well as the ruled.

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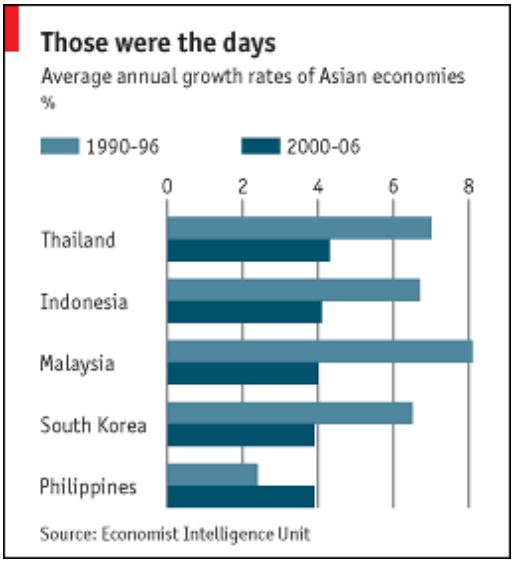
Asia's economies

Once bitten

Mar 29th 2007
From The Economist print edition

Countries on the front-line of financial crisis in 1997 are suffering still



THE grimmest forecasts proved mercifully misguided. After a devastating financial whirlwind ripped through Asian economies in 1997, some analysts thought it would take a generation to recover. In fact, it was just a matter of two or three years. The bleak IMF-imposed austerity packages hurt, but seemed to do the trick. The worst-affected economies were soon growing fast again. Last year, developing Asian economies as a whole grew at an astonishing 8.3%.

Recovery, however, is far from total. The annual *Outlook* published by the Asian Development Bank (ADB) this week looks at the growth record of the five worst-hit countries: Indonesia, Malaysia, the Philippines, South Korea and Thailand. Comparing the period from 1990-96 with 2000-06 (ie, after the crisis had passed), it finds that "growth has settled on a lower trajectory." It has slipped by an average of 2.5 percentage points a year (see chart).

The ADB finds the slowdown cannot be satisfactorily explained by demographic changes, by worsening "human capital", ie, educational shortcomings, or by falling productivity. Rather the cause lies in falling investment rates. These plummeted in the wake of the crisis, and have never returned to pre-crisis levels.

This of course invites another question: why are businesses not investing? It seems odd, since one supposed consequence of the crisis in almost every country was radical reform of policies and institutions whose failures were blamed for the trouble. It should be safer to invest than it was. Yet studies of standards of "governance"—measuring, eg, the rule of law, corruption, the quality of regulation and political stability—actually show a worsening since the crisis. That seems unlikely. But it suggests that the crisis had a lasting impact on investors' perceptions. As the ADB puts it, the crisis taught them "hard lessons about the consequences of discounting risk".

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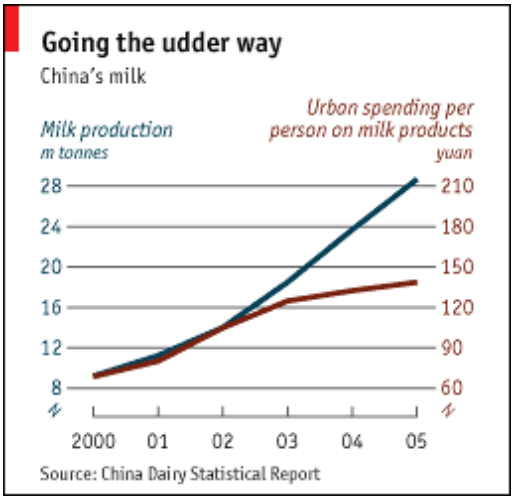
China's dairy industry

Getting creamed

Mar 29th 2007 | SHALIUHE
From The Economist print edition

A government-sponsored craze for milk production goes sour



TO OFFICIALS in Shaliuhe, a village about 120km (75 miles) east of Beijing, it all seemed so simple. “Good cows, good grass and good feed produce good milk”, says a huge slogan inside a dairy farm built by villagers six years ago. “Profit for the county, profit for the township, profit for the village and even more profit for the people”, the chipped characters proclaim. They may have been right about producing milk. But like many other milk-addled rural bureaucrats in China, they have proved sadly mistaken about profits.

A few years ago, it looked like a good bet. Urban Chinese were beginning to acquire a taste for dairy: milk drinks, yogurt, ice cream and even that once utterly disdained product, cheese (Westerners were said to smell of it; this was not a compliment). Spending on dairy products shot up (see chart). Foreign dairy manufacturers scrambled to enter the market. China's dairy farmers were struggling to keep up.

Another fading slogan at Shaliuhe reads: “More income for peasants—stability in the countryside”. This hints at another motive for the milk boom. A growing gap between urban and rural incomes was thought to be fuelling discontent. Encouraging peasants to make milk looked like a sure way of making them richer. In the north-eastern rustbelt, which had long been a centre of the dairy industry, some cities sought to boost dairy farming to revive failing economies. (The famous oil town of Daqing now gushes milk.)

But many peasants needed help. A single cow can cost the equivalent of several years' income. So some local governments encouraged rural banks to give low-interest loans. Governments themselves and dairy manufacturers sometimes chipped in. With such clear official backing, peasants reckoned they could not go wrong. Two families at Shaliuhe sold their houses in order to buy cows, villagers say. In the mid-to-late 1990s, the number of dairy cows in China was fairly stable at around 3m-4m. Between 2000 and 2005 the number tripled, as did output.

Liu Baijin, a 63-year-old former railway worker from Shaliuhe village, invested his entire life's savings, his retirement pay-off and a big loan from a relative in ten cows (he now has 30). Mr Liu, who also manages the village's dairy farm, says the dairy business has been like China's stockmarket (notorious for its wild swings). His cows have made him nothing. He says others in the village who borrowed heavily to buy their cows are in an even worse position. Cow prices are less than half what they were five years ago.

Milk prices have been falling too. Many of China's dairy farmers are peasants with just a few cows in their yards, milked by hand. They are mostly newcomers to the industry and have a poor understanding of quality control, cow tending and how to select and breed good animals. Milk collectors can easily force prices down, knowing that farmers have no choice but to sell quickly. Feed prices, meanwhile, have risen rapidly in recent years. In some places, to cut their losses, peasants have been slaughtering their dairy cows for meat. Shaliuhe's farm had nearly 1,000 cows at its peak in 2002, with the animals owned by 60-odd households in the area. But even with guaranteed sales to a big manufacturer, participants are struggling. The animals are down to 800. Around 20 families have pulled out altogether.

Officials are not giving up. To the industry's delight, the prime minister, Wen Jiabao, visited a dairy farm last year and said his dream was that all Chinese drink half a litre of milk a day, especially schoolchildren.

In Moscow this week Hu Jintao, China's president, encouraged Russians to buy more Chinese milk. Undeterred by the inglorious impact of their meddling so far, many local governments are now promoting yet more cheap loans and other incentives to encourage peasants to set up big mechanised farms like Shaliuhe's. This, they reason, will boost the output of high-quality milk for which there remains strong demand. Sadly, their grasp of the supply side appears little improved.

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Australian politics

The Hicks effect

Mar 29th 2007 | SYDNEY
From The Economist print edition

A sheriff tries to turn in his badge

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GUANTÁNAMO BAY is a long way from the Sydney suburbs that will form a decisive battleground in Australia's general election expected later this year. Yet the case of David Hicks, a 31-year-old Australian detainee at Guantánamo, has worked its way into the minds of voters who will decide whether the conservative coalition government, led by John Howard, wins a fifth term. Mr Hicks has been held at Guantánamo Bay for five years, most of that time without charge (see article). On March 26th, after a plea bargain, he pleaded guilty to a charge of providing material support for terrorism.

Depending on the length of a prison sentence due to be decided a few days later, he might return to Australia a free man or to serve time in an Australian jail. Mr Howard and his colleagues breathed a collective sigh of relief at what Alexander Downer, the foreign minister, called a "saga that has come to a conclusion". The potential political fallout from the Hicks case, though, makes this judgment somewhat premature.

AFP

Howard's has opinion-poll blues

After Mr Hicks was arrested with Taliban fighters in Afghanistan in late 2001 and sent to Guantánamo Bay, Mr Howard's government washed its hands of him. One minister described him then as "one of the world's most dangerous people". This is at odds with reports of Mr Hicks's interviews with Australian police, when he was quoted as condemning the September 11th 2001 attacks on America. "It's not Islam is it?" he is supposed to have said. "It's like the opposite of what I wanted to do."

Regardless of his alleged crimes, the longer he was locked up in Guantánamo Bay, the more Mr Hicks became a focus among many Australians over two issues: legal rights and the Howard government's perceived subservience to the Bush administration. Mr Howard has sent Australian soldiers to fight in both Iraq and Afghanistan. George Bush hardly helped his image in 2003 when, asked whether Australia was a "deputy sheriff", he responded by promoting it to "sheriff".

After 11 years in power, Mr Howard is facing the worst opinion polls of his prime ministership. A poll on March 20th gave Labor a 22-point lead over the government. Other issues played a part: the government's new workplace laws, its tardy response on climate change and a popular new Labor leader, Kevin Rudd.

However, a poll in December on the Hicks case itself rocked the government. It showed that about two-thirds of Australians thought Mr Hicks should be returned to Australia, and only one-quarter supported Mr Howard's hands-off approach. Since then Mr Howard has changed his public tune, blaming America for the delays in bringing Mr Hicks to trial. That may not be enough to assuage public anger, which probably runs deep enough to affect elections in a few months' time.

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Nepal

Broken peaces

Mar 29th 2007 | KATHMANDU
From The Economist print edition

Scarred by continuing violence, the peace process is in serious trouble

THE arrival of a text message in a political leader's pocket announced the latest assassination in the southern Terai plains this week, and the news was met with grim exclamations and eye-rolling. Madhav Kumar Nepal, leader of a moderate communist party, known as the UML, which polled second when Nepal last voted in 1999, does not think anyone is going to shoot him. But he will struggle to hold his southern constituency if Nepal manages to vote again soon.

Like most of the country's politicians, Mr Nepal is not yet ready to admit that elections scheduled for June are impossible, and will have to be delayed until after the monsoon—ie, until October at the earliest. But he is willing to discuss this scenario, which most people now think is inevitable. The poll, to elect an assembly to write a new constitution, is the cornerstone of a peace process designed to end a ten-year Maoist insurgency. “Nepal will be entangled in complications,” he says. “There will be this army, that army, creating chaos! A failed government!”

Many say all this is true already. The southern plains, known as the Terai, are home to numerous ethnic-separatist groups with murky links to smugglers, bandits and Hindu fundamentalists in India. On March 21st, supporters of the largest, the Madhesi People's Rights Forum (MPRF), killed 29 people, mostly Maoists, near the town of Gaur. The victims were raped, burnt, beaten and speared to death. Every day now brings news of clashes, bombings, kidnappings and drive-by shootings in the Terai.

A year ago the Maoists were a proscribed “terrorist” organisation, but under the peace process they are represented in an interim parliament (which their deputies attend with concealed weapons) and consulted on government business. Now they say that if the government does not ban the MPRF they will wage war to avenge the victims of Gaur.

Yet one senior official says the government cannot ban the Forum, because of the widespread support it enjoys in the Terai. This week, he says, the government was aware of several hundred Maoists heading into the MPRF's heartland. Besides clashing with Madhesi groups since the beginning of the year, the Maoists have repeatedly broken the ceasefire in other ways. According to a Western diplomat, around 5,000 hard-core fighters are hidden outside the United Nations-run camps where they are supposed to be confined. Most have enrolled in a new goon squad called the Young Communist League. No one believes they have surrendered all their weapons. Maoist violence and extortion seem as serious as the trouble in Terai. Yet the government and the UN have been muted in their criticism.

At midweek the Maoists were on the brink of joining an interim government. The hope is that power will make them act more responsibly. But the politicians' hopes of keeping control rest on maintaining unity between the seven-party coalition government and the Maoists. That will be hard. They blame each other for what is going wrong. And to hear the leaders describe one another in private, their unity seems as amicable as that of fighting cats trapped in a bag.

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Sri Lanka

Flying Tigers

Mar 29th 2007 | COLOMBO
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The war takes a turn for the worse

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PIONEERS of one lethal form of warfare—suicide-bombing—the Liberation Tigers of Tamil Eelam have a new claim to fame: a rudimentary air force. On March 26th they used it to attack the main air-force base of the Sri Lankan government, with which they have been fighting for a quarter of a century to win an independent homeland for the Tamil minority. Tiger air power adds a dangerous new element to a war that is intensifying, despite a five-year old ceasefire that is still notionally in force.

As the Tigers tell it, two of their aircraft bombed the base, which is next to Colombo's international airport. The crew, who were photographed beaming beside their reclusive, brutal leader, Velupillai Prabhakaran, returned unscathed. Three people were killed in the raid. The two sides disputed how much damage was done to aircraft parked at the base.

There was outrage in the south, dominated by the Sinhalese majority, that slow-moving light aircraft could fly 400km (250 miles) up and down over government-held territory without being detected or challenged. Stung by the attack, the Sri Lankan army unleashed air raids on the Tamil-majority north-east. And, in a serious setback for the Tigers, the army on March 28th captured Kokkadicholai, its main base in the eastern district of Batticaloa. Even before the raid, Tiger-controlled areas there had suffered incessant shelling.

According to the United Nations, 155,000 civilians have been displaced in the past six weeks. The government hopes to free the entire east from the Tigers' clutches before Sri Lankan new year in April. It has also opened another front in the Tiger-controlled north. According to insiders, the main aim here is to capture the Catholic shrine at Madu, and win the support of the Christian minority.

Even now, government spokesmen mouth platitudes about the importance of a negotiated settlement. But officials also speak of victory within the next three years in a war that has claimed some 70,000 lives, including 4,000 since the end of 2005. The Tigers have always been hard to defeat, and able to fight on several fronts: as a guerrilla force in the east (including a little navy, “the Sea Tigers”); as a conventional army in the north; and as terrorists disrupting the Sinhalese south.

Their capacity to send aircraft undetected to the south on bombing sorties gives the Tigers another way of bringing the war home to the Sinhalese. This may undermine their support for the aggressive strategy adopted by Mahinda Rajapakse, the president, which so far seems popular among most of them.

The air raid also dashes any prospect—already faint—that the Tigers might return to the negotiating table in a more pliable state of mind. Nor do the government's hopes of a definitive military “solution” seem good. Regardless of the Tigers' fighting capabilities, they ignore the genuine Tamil grievances over discrimination by the Sinhalese majority, which the Tigers are masters at exploiting. In the past, army campaigns have served to drive more civilians into the Tigers' embrace.

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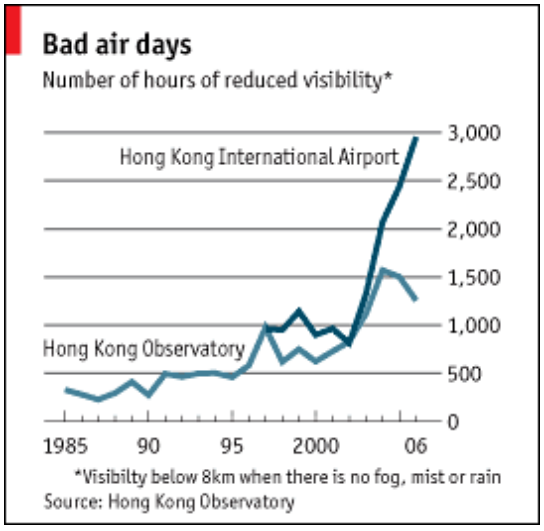
Pollution in Hong Kong

The big wheeze

Mar 29th 2007 | HONG KONG
From The Economist print edition

Where official thinking is as foggy as the sky



HONG KONG'S harbour offers one of the world's most spectacular views—when you can see it through the smog that often shrouds it. The government lays the blame largely on emissions drifting from mainland China, implying Hong Kong is powerless to clean up its air. Yet much of the blame lies at home.

Over the past decade the number of hazy days has increased dramatically most years (see chart). Poor air is forcing runners and hikers back indoors wheezing. No other developed city has such filthy air. Hong Kong's air pollutant concentrations are now 200% above norms set by the World Health Organisation.

A government study a few years ago claimed that 80% of Hong Kong's pollution came from mainland factories and power plants. However, a new report by the Hong Kong University of Science and Technology and Civic Exchange, a think-tank, finds that in 2006 Hong Kong's air pollution was caused more often by local sources (road traffic, coal-fired power stations and ships) than by factories in southern China. Local emissions were the main cause of pollution on 192 days; those from the Pearl River Delta on the mainland on 132 days. The other 41 days had low pollution.

This does not necessarily contradict the government's findings. Pollution from the mainland may well be worse measured by volume, so more pollution probably does come from the mainland (where many factories are owned by Hong Kong firms). But the findings do suggest that Hong Kong can itself do more to improve its air.

For a start, the government could come clean about the problem. The official air pollution index (API) is a sham. When it gives a “moderate” reading, the same pollution could register “very high” on the EU's measure. Anthony Hedley, of the University of Hong Kong, estimates that air pollution causes 1,600 deaths a year, and 6.8m visits to the doctor—one for every resident. Pollution brings heavy costs besides health care. Hong Kong has become a less desirable place to live. Firms report that they are having to pay more to lure foreign talent. So dirty air hurts Hong Kong's competitiveness as well as its citizens' lungs.

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Japan

The market that can say no

Mar 29th 2007 | TOKYO
From The Economist print edition

How Tokyo's fish market affects the prime minister

SPRING in Japan this year heralds a rash of more than 1,000 local elections across the country: on April 8th some 13 out of Japan's 47 prefectures hold gubernatorial elections, including Tokyo, Hokkaido in the north and Fukuoka in the south. Nearly every prefecture elects a new assembly on the same day. On April 22nd mayoral and municipal-assembly elections take place, along with two closely watched by-elections for the House of Councillors, the upper house of the Diet (national parliament). The results will give a clue about the prospects for the country's governing coalition of the Liberal Democratic Party (LDP) and New Komeito when they attempt to keep their majority in crucial upper-house elections in July. A strengthened majority then would be a welcome boost for Shinzo Abe, the prime minister who has seen his popularity slump since he came to office six months ago. Defeat would put Mr Abe's future in question.

AFP

Fishihara: Olympic champion

The governor's race in Tokyo has a motley collection of candidates that include an inventor who has photographed and analysed every meal he has eaten for the past 35 years. It is seen as the bellwether election. Officially, the LDP does not endorse the two-term incumbent, Shintaro Ishihara. Nor does the opposition Democratic Party of Japan openly back his main challenger, Shiro Asano, a former governor of Miyagi prefecture. Tokyo has many independent-minded voters, and the candidates think that party ties put them off. Yet both parties are putting their organisations behind their respective men. Defeat for Mr Ishihara would be a blow for Mr Abe.

Mr Ishihara, at 74, has offended plenty of constituencies in his long political career. The affronted include: foreigners of every stripe; women beyond child-bearing age, who he says are a drain on the country; schoolteachers who resent his insistence on flag-raising ceremonies each morning; and urban crows whose extermination he ordered after being pecked by one. Yet plenty of Tokyo folk take his straight-talking style as a mark of integrity, even if his clean reputation has recently been tainted by an expenses scandal and whiffs of nepotism.

The governor's latest obsession is perhaps his most divisive. He passionately wants to bring the Olympic games back to Tokyo in 2016, arguing that they will do wonders for the city's infrastructure, prosperity and international reputation. Opponents say that Tokyo, whose 1964 Olympics represented a coming-out party for Japan after the devastation of war, no longer has anything to prove with such a costly proposition. Health care, pensions and schooling are the pressing issues. Most contenders for the governorship, including Mr Asano, oppose the Olympics bid.

Caught up in this debate is the future of the Tsukiji fish market, the world's biggest, with 2,000 tonnes of seafood passing through each day. It is hugely popular with overseas and Japanese visitors, and its gritty verve stands in contrast to many of the capital's sanitised routines. But Mr Ishihara wants to move the market to Toyosu wharf, on reclaimed land three kilometres (two miles) further out in Tokyo bay. Tsukiji will then become the site for a giant Olympics media centre.

Tsukiji was built as the replacement for the fish market that had stood at central Nihonbashi for over 300 years until a huge earthquake in 1923. Hideji Otsuki, the market's city-appointed boss, says that it is now outdated, having been built for rail freight. Today's giant refrigerated lorries have difficulty squeezing in. Meanwhile, the three-wheeled motorised carts used to move boxes of fish about the narrow alleys are forever bumping into each other.

Many market traders oppose the move. Katsuji Takeda, the owner of a sushi business, says that at a stroke the “Tsukiji brand” will be destroyed. City managers proposing the move, he says, are bureaucrats who confuse a sterile distribution centre with the social and commercial vitality of a true market.

Opposition has recently grown further over the toxic benzene that contaminates the soil at the new site. Tokyo Gas, the utility whose land it was, is removing 2m (6.6 feet) of topsoil, and 2.5m of fresh soil is going on top, but environmentalists say that an earthquake or a tidal surge would bring the benzene straight back up to the surface again. Even Mr Ishihara has agreed to put off a decision about the move until experts have been heard.

Still Mr Ishihara—backed by construction companies drooling over the Tsukiji site, so close to the fashionable heart of Tokyo—seems to be ahead in the election race. Few doubt what will happen to the fish market if he wins. An irony for visiting journalists looking for good stories in 2016: the last visible link with an earlier Tokyo might have made a good story, and they will find themselves literally sitting on it.

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Iran versus the West

Hostages to fortune

Mar 29th 2007
From The Economist print edition

Iran's seizure of British sailors raises the stakes

AP

Get article background

IT STARTED as a routine cargo inspection of the kind that the Royal Navy carries out every day looking for smugglers around Iraq's coast. But the seizure on March 23rd of 15 British sailors and marines by Iran's Revolutionary Guards—and the decision to show footage of the servicemen “apologising” on Iranian television—has created a heated diplomatic crisis just at a time when Iran faces isolation, tightening United Nations sanctions and growing American pressure.

Was the whole incident a mistake that has spun out of control, or did Iran carry out an act of state-sponsored piracy to create a diversion, or perhaps, even, to gain a political pawn? As the days go by, it looks ever more like the latter. And even if the incident was a mistake, Iran-watchers say, the country's fractured political dynamics will mean that parts of the clerical regime will want to bargain for concessions anyway—perhaps the release of five Revolutionary Guards officers arrested by American forces in Iraq. At the very least, some in Iran will see value in humiliating Britain, long regarded as the chief schemer in Persia's affairs. Iran dare not directly confront America, the “big Satan”, without risking war. So what better than to torment Britain, the “small Satan”?

Despite the fact that a similar incident took place in 2004, when eight sailors and marines were held for three days, the British government at first acted as if it was all a misunderstanding. But when quiet diplomacy failed to secure the release of the servicemen, things moved into what the prime minister, Tony Blair, described as a “different phase”.

On March 28th the Royal Navy released navigational data which it says proves that its servicemen were “well within Iraqi territorial waters”, and dismissed two different accounts given by Iran of the incident to British diplomats. Britain's Foreign Office, meanwhile, has curtailed diplomatic and economic relations with Iran.

Britain had warned Iran not to parade its sailors and marines on television (as had happened with the blindfolded servicemen in 2004). But within hours of the diplomatic offensive, Iran released footage on television of the captured servicemen eating food. It focused on a female sailor, Faye Turney, who was

wearing a headscarf and said “obviously we trespassed into their waters”. As *The Economist* went to press, Iran said she would be released. But her companions are likely to be held for longer. Britain, said Iran's foreign minister, Manouchehr Mottaki, had to accept that its sailors and marines were on the wrong side of the maritime line.

The war of grid references might be comical were it not for the increasingly high stakes in the region. With the arrival of a second aircraft-carrier group in the Gulf, America this week started a large military exercise off Iran's shores. The oil markets are jittery.

The capture of the British servicemen also coincided with the passage of a second UN Security Council resolution tightening financial and other sanctions on Iran because of its refusal to halt its uranium-enrichment programme that, many believe, is aimed at making atomic bombs.

Resolution 1747, passed unanimously, adds 28 names to a list first adopted by the council in December of organisations and individuals to be sanctioned for their involvement in Iran's nuclear and missile programmes. Among them are some prominent members of the Revolutionary Guards and companies that they control.

Some on the council—South Africa, Qatar and Indonesia—were uneasy at extending sanctions. But Iran's insistence on forging ahead with uranium enrichment left potential allies without options.

The unanimous vote came as a welcome surprise to the European, American, Russian and Chinese diplomats who drafted the new resolution—and an unpleasant one for Iran. It said the new resolution was unlawful and this week it further reduced its limited co-operation with the International Atomic Energy Agency (IAEA), the UN inspectorate. Iran says it wants to enrich uranium to make fuel for nuclear-power reactors, and claims to be the target of a Western plot to deprive it of its “inalienable rights” to do so. To counter the charge, the Security Council resolution included the details of last year's offer by Europeans and others to help Iran obtain nuclear technology that is less prone to proliferation.

Iran has even managed to alienate Russia, which is building a nuclear reactor for Iran at Bushehr. It has suspended plans to ship uranium fuel for the reactor, ostensibly because of late payments by Iran. But privately Russian officials say Iran has taken their discomfort with sanctions for granted; the Russians don't like being played for fools.

When sanctions bite

The latest UN resolution threatens further economic sanctions, rather than military force, if Iran does not comply. Those may turn out to be more effective than they sound. Among those blacklisted are Bank Sepah, Iran's fourth-largest bank, and its foreign arm, which has several branches in Europe. The United States had already cut the bank off from the American financial system; now the Europeans have legal cover to do likewise.

All this adds to the pressure on Iran. Many banks and companies have already cut back dealings with Iran and the subsequent complaints of Iran's businessmen have added to criticism that the government's quest for nuclear “rights” is coming at the expense of the right to a decent life.

For the moment, though, Iran is in a defiant mood. Shortly before the new sanctions were approved, Iran's supreme leader, Ayatollah Ali Khamenei, said his country stood ready to confront any aggressor “with all our capabilities”. He also issued an opaque warning that “so far we have done everything in accordance with international law, but if they want to violate these laws, we too can and will violate these laws.” With the seizure of the British servicemen, his meaning may have become clearer.

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Israel and the Palestinians

A diplomatic minuet

Mar 29th 2007 | JERUSALEM
From The Economist print edition

The Americans and Saudis have quickened the tempo in peace talks

IF MERE coming and going is a sign of progress, this has been a good week for Arab-Israeli diplomacy. Condoleezza Rice, the American secretary of state, met the Israeli prime minister, Ehud Olmert, and the Palestinian president, Mahmoud Abbas, and got them to promise to meet each other every fortnight. Ban Ki-moon, the UN secretary-general, invited the two sides and the "Arab Quartet" of America-friendly states to the next meeting of the other Quartet (the UN, the EU, America and Russia). And the Arab League, meeting in Riyadh, the Saudi capital, reissued its 2002 call for "normalisation" of relations with Israel in return for its giving up all the occupied territories, with some Arab leaders hinting that the criteria for Israel's compliance could be made flexible.

But despite these hopeful noises, the mood is generally pessimistic. Israel cannot accept the Arab League plan in its all-or-nothing form. Hamas, the rival to Mr Abbas's Fatah party and the dominant force in the new Palestinian unity government, is unhappy about the explicit acceptance of Israel. Ms Rice's visit to the region was her seventh in eight months. This time and the last, she tried to get Mr Olmert to talk to Mr Abbas about what in Palestinian peacemaking has come to be called a "political horizon". This is code for sketching in some kind of outline for the final-status issues (borders, the ownership of Jerusalem, the fate of the refugees and so on) that may not be negotiated until months or years hence. Mr Abbas wants it in order to show his people clear light at the end of the tunnel of negotiation and coax them away from Hamas.

Mr Olmert, on the other hand, cleaves to the somewhat dusty "road map", according to which final-status discussions are supposed to await a definitive end to (Palestinian) terrorism and (Israeli) settlement expansion. So Ms Rice proposed that America hold talks on the political horizon with each side separately. Whereupon Messrs Abbas and Olmert at last found something they could both agree on: they would rather talk directly to each other, even if they had nothing to say.

The Arab League, meanwhile, may have softened its stance a little, but it too demands a political horizon: Israel must agree in principle to withdraw to its pre-1967 borders and to a "just solution" for Palestinian refugees based on UN resolution 194 of 1948, which calls for allowing the return of all those willing to live in peace with their neighbours. Any flexibility (such as land swaps to finesse the borders, and compensation to the refugees instead of return) will come only afterwards. But Israel says letting back all the refugees would extinguish it as a Jewish state.

For once, however, Arab leaders are united. Some have been warning against missing what they call this historic opportunity, sensing that Israel's cavils will leave the Jewish state out in the cold.

That may already be happening. Since the Palestinians formed their unity government in mid-March, Israel alone has stuck fast to the boycott imposed when Hamas took power a year ago. Even America has agreed to talk to some non-Hamas ministers. Israeli government insiders think pressure from abroad as well as some of his cabinet colleagues could soon bring Mr Olmert to do the same. But in other respects he seems paralysed as he waits for the report of an inquiry into last summer's hapless war in Lebanon, which could spell the end of his government.

So is that it? Maybe not. Hamas's prime minister, Ismail Haniyeh, abstained rather than voting against the Arab League proposal in Riyadh, and some Hamas spokesmen have suggested that it will not oppose the league's decision. Moreover, hints have emerged that Israel may be talking quietly to the Saudis. Shlomo Ben-Ami, a former Israeli foreign minister, thinks the Saudis, the driving force behind the Arab League initiative, may yet push the Palestinian government into formally accepting the plan—which would be tantamount to recognising Israel's right to exist—without requiring the same commitment from

Hamas itself.

It would be sheer sleight-of-hand, but there is a precedent: four years ago Israel's Likud-led government, under Ariel Sharon, was holding talks on the “road map”, even though the Likud itself flatly rejected the idea of a Palestinian state.

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Iraq

An ambassador takes his leave

Mar 29th 2007 | BAGHDAD
From The Economist print edition

Pity there was only one of him

IF YOU are going to invade and occupy a couple of failed Muslim states that have weird and impenetrable politics, it helps to have a Khalilzad or two on your team. Unfortunately for the Bush administration, there is only one Zalmay Khalilzad.

Subtle, Muslim, moderate and urbane, born in Afghanistan and educated in Beirut, he could almost have been bio-engineered to help the Bush administration pick its way through post-war politics in Afghanistan and Iraq. And as America's ambassador in Kabul after the eviction of the Taliban, he was an undoubted success. He helped to stitch together an interim government under Hamid Karzai, and turned himself into the new Afghan president's indispensable prop and adviser.

AFP

Retiring, but not shy

By all accounts he was less keen on his posting, nearly two years ago, to Iraq. And when this week he ventured out of Baghdad's fortified Green Zone to take his leave at a farewell garden party, it was not hard to see—or at any rate hear—why. Sipping mango juice and nibbling on the city's finest baklava, the outgoing ambassador appeared at ease. He insisted that success was still possible in the war-ravaged country. Yet the words were barely out of his mouth when they were drowned out by an eruption of gunfire. It later emerged that a group of Sunni insurgents had attacked an Iraqi army post just a few blocks away. A 45-minute gun battle left four civilians dead in the crossfire.

Many Iraqi politicians are nonetheless generous in their tributes. “He inherited an almost impossible situation caused by the mistakes made after the fall of Saddam,” says one former minister. Another supporter, a deputy prime minister, Barham Salih, says that Mr Khalilzad did an excellent job navigating the minefields of Iraqi and domestic American politics. At first he seemed a refreshing change to Iraqi politicians after the arrogance of Paul Bremer and the aloofness of John Negroponte, his predecessors. Time spent handling the exiled Iraqi opposition before the war meant he knew the main players well. And despite his closeness to some of the more ideological promoters of the invasion, he proved to be a pragmatic operator in Iraq.

The intrepid ambassador is now on his way to a different sort of hostile environment, as America's ambassador to the United Nations. But before leaving Baghdad he took to ticking off what he saw as his main accomplishments. They included overseeing the drafting of a constitution, the participation of all Iraqis in a second round of elections and the formation of a national-unity government led by a Shia prime minister, Nuri al-Maliki. A Sunni himself, he will also be remembered for his tireless efforts to try to bring Iraq's marginalised Sunni minority in from the cold, even talking to Sunni insurgents.

But his critics counter that each one of those achievements contained within them the seeds of further trouble. The federal constitution alienated Sunnis further; the election process merely strengthened sectarian divisions and the sclerotic government of national unity proved either unwilling or unable to rise to the challenges of reconstruction and reconciliation. His period as ambassador certainly coincided with a relentless rise in killing of every kind. When enough guns are firing, even the most urbane of diplomats can find it hard to make a difference.

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Egypt

Reform to preserve

Mar 29th 2007 | CAIRO
From The Economist print edition

Democracy takes a battering in a constitutional referendum

AP

Less transparent than it seems

ACCORDING to President Hosni Mubarak, the amendments to the country's constitution that were approved by 75.9% of the voters in a national referendum on March 26th were a first step towards a more democratic future for Egypt. That sounds nice, except that the Egyptian leader's opponents contested not only the amendments but also the legitimacy of the referendum itself, which they termed a “constitutional coup”. Even the American secretary of state, Condoleezza Rice, who has recently softened criticism of her Egyptian ally, described the changes as a “really disappointing outcome”. Her remarks prompted bristling from Egyptian officials about interference in their affairs.

To be fair, the 34 constitutional amendments include some good measures. The parliament wins more budgetary oversight and the prime minister has won some more powers, though he is still to be appointed by the president. References to socialism that betrayed the age of the 1971 constitution have been replaced by more market-friendly verbiage.

But this does not amount to much when the ruling National Democratic Party (NDP) and Mr Mubarak have an iron grip on political life. And like every poll in Egypt in recent years, the referendum was marred by allegations of vote-rigging. Indeed, in most respects the changes seemed geared more to removing irritants to the regime than to achieving democracy.

The amendment to Article 88 of the constitution, for instance, now drastically reduces the traditional role of judges in the supervision of elections, replacing it with an electoral commission whose composition will be defined by a future law. The judges annoyed the government when they revealed the existence of widespread electoral fraud in 2005.

Another controversial change is to Article 179. For the 25 years Mr Mubarak has been in power, an emergency law has allowed his security services extraordinary powers. This law has been blamed for making the use of torture routine. Under the amendment it will now be annulled. This might have pleased human-rights activists, except that the emergency law will be replaced by an anti-terror law whose contents are for now still unknown and which will also supersede three other articles that protected civil liberties.

In theory, the anti-terror law will apply only to terrorism cases. In practice, Egyptians fear, it will give the regime the constitutional power to do exactly what it did under the emergency law: detain suspects without charging them, conduct surveillance and searches without court warrants and refer cases to military tribunals with no possibility of appeal.

The amendments also formalise a long-held ban against religious parties and pave the way for a list-based electoral system. This would probably exclude from parliament the only real opposition, the 88 members of the Muslim Brotherhood who were elected as independents in the 2005 elections but who have spoken of creating a legal political party. Representing a fifth of parliament, they have been vocal opponents of the regime. They boycotted the referendum and could now lose most of their seats if Mr Mubarak uses another new reform to dissolve parliament, prompting fresh elections long before the MPs' terms end in 2010.

Why did the 78-year-old Mr Mubarak decide so late in his rule to push through these changes? Maybe because he can now bequeath to his successor a political system in which the authoritarian tendencies of Mubarakism survive. That is a legacy his son Gamal, a controversial heir-apparent, would no doubt appreciate.

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African urbanisation

Cities without limits

Mar 29th 2007 | JOHANNESBURG AND LUANDA
From The Economist print edition

Struggling to cope with too many people

TWO years ago Zimbabwe's muscular answer to the informal shacks and markets proliferating in its cities made headlines. About 700,000 people had their homes or stalls destroyed. Most are still waiting for the replacements that they were promised by the government. The Zambian government is now threatening to tackle the same problem in much the same way. Earlier this month, some illegal houses were razed in Lusaka, the capital, and officials have threatened to intensify the “cleanup” and extend it nationwide.

These are two examples of a continent-wide phenomenon; African cities are struggling to cope with an unprecedented influx of people. Most come from the countryside; making a decent living ploughing tiny plots of land is hard, and cities offer more hope of a job. But some are refugees from fighting. Luanda, built for half a million people, is now home to at least 4m, many of whom fled there during Angola's horrific civil war. Shacks have popped up in the most precarious of spaces, and in slums such as Boa Vista, near the port, ancient piles of garbage are composting in the streams that run between the makeshift shelters.

Johannesburg, South Africa's business capital, is facing similar problems. Over 20% of the city's population are thought to live in shacks and the city cannot build cheap houses fast enough. In places like Alexandra, one of the city's townships, shacks have been built dangerously close to the river and people drown when it swells. Plans are under way to move some people to new houses elsewhere.

But what happens when the people do not want to move? That is the problem facing the city in the old central business district. For years it has been kicking out poor people who had moved into the many abandoned buildings, claiming that they are unsafe. But now lawyers acting for 300 people fighting eviction argue that the city must provide alternative accommodation, preferably in the same area.

The catch is that property developers are turning the decrepit buildings, abandoned when most businesses fled a crime-wave for the northern suburbs in the early 1990s, into swanky apartment blocks, and property prices have been rocketing. A court ruled this week that the city has to find them another place to live, although it does not have to be in the centre of town. The case may now land on the Constitutional Court's desk.

And evicting people—or providing new houses—does not necessarily mean that they leave. In downtown Johannesburg, those who have lost their homes often move to the next derelict building to stay close to their livelihood. In Luanda, people are coaxed to leave their shacks and move to brand-new houses built by Chinese contractors, but many move quickly back into town. The new houses are too far out, with no adequate public transport, and they are sometimes built before water, electricity or schools get there.

Until the countryside offers a decent living, the lure of the city will remain, however awful the shanty-towns. And regardless of their dreams of gentrification, African cities need to make room in their centres for cheap housing for the poor. Otherwise, the shacks won't go away.

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Congo

A deadly warning

Mar 29th 2007 | KINSHASA
From The Economist print edition

The country's fresh start in peril

IT IS thought that up to 600 people may have been killed in last week's fighting in Kinshasa between government forces and gunmen loyal to Jean-Pierre Bemba, the defeated presidential candidate in last year's election. There are now fears that the country's nascent democracy, boosted by the elections, which were overseen by the United Nations at a cost of about $500m, may be stillborn.

The gun battle erupted when Mr Bemba's men refused to comply with an order that his bodyguards should be incorporated into the new national army. A new bodyguard, of 12 national policemen, would be provided. President Joseph Kabila claimed that the fighting was a military response to a military problem and not a settling of old scores. But European diplomats expressed concern at the disproportionate and “premature” use of force.

Mr Bemba has sought shelter in the South African embassy. Members of his Movement for the Liberation of Congo (MLC), the largest opposition party in the new parliament, have gone into hiding for fear of arrest by the army or police.

Mr Kabila, for his part, shows no sign of being conciliatory. Congo's general prosecutor has indicted Mr Bemba for treason and inciting rebellion. If Mr Bemba were pushed into exile, as seems likely, that would effectively decapitate what little opposition still exists in Congo. The MLC would probably split into smaller factions and force the collapse of a wider opposition parliamentary block, the Union for the Nation. Many people will construe Mr Bemba's departure, or his having to face a show trial, as clear proof that Mr Kabila has no interest in democracy.

This is the second time that government forces have been involved in fighting with opposition supporters since the elections. Earlier this year the army killed about 100 civilians during a crackdown in Bas-Congo, the country's western province. After this latest round of violence, discussion is bound to turn to the fate of the UN's 17,000-strong peacekeeping mission in Congo. A decision on the renewal of its mandate was postponed from February, to allow time for the country's new rulers to find their feet. Mr Kabila has made it clear that he will not tolerate any international meddling in the country. Now, however, there may be good reasons for the peacekeepers to stay.

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France's presidential election

Four-way fight

Mar 29th 2007 | PARIS
From The Economist print edition

Peter Schrank

The French presidential election is looking harder than ever to call

Get article background

WITH just three weeks left before they go to the polls for the first round of their presidential election, French voters seem in a capricious mood. If there is one thing they dislike, it is a pre-written electoral script. They demonstrated this in 2002 by putting the far-right Jean-Marie Le Pen into the second round, ahead of the Socialist candidate. They did it again in 2005, by rejecting the European Union constitution in a referendum. This year they have already staged one rebellion in the opinion polls, by catapulting a third man—François Bayrou—into the leading pack. As his novelty value seems to be fading, what surprise might the French electorate have in store next?

As the polls stand today, there has been a levelling-off in support for Mr Bayrou, who leads the centrist Union for French Democracy, and has sat in parliament for 21 years. His talk of “governing beyond the left-right divide” and his newly reinvented image as a humble farmer with grit under the finger-nails at first appealed to those who were fed up after 25 stagnant years of alternating power. Yet hard questions about how Mr Bayrou would govern, and with whom, seem to have stalled his ascent. The latest polls still give him third place, with 18-22% of the vote. But most show his support plateauing, leaving a gap between him and the two front-runners: the centre-right Nicolas Sarkozy, and the Socialists' Ségolène Royal.

Almost every poll since the start of the year has put Mr Sarkozy in top position in the first round. But his lead has been narrowing. A poll by Ifop this week gave him 26%, against 25% for Ms Royal. Another, by LH2, showed the pair neck-and-neck, at 27% each. Not only are Mr Sarkozy's numbers edging down; but also Ms Royal's seem to be reviving.

The Socialist candidate is in sore need of a boost. So far, her campaign has been unconvincing. She has appeared ill-briefed and incoherent. She has piled up spending promises, but failed to explain how she would pay for them. She has fallen out with her party's chief economic adviser, Eric Besson, who quit not only her campaign but the party as well, accusing her of amateurism and shameless populism. Mr Besson claims that “what Ségolène Royal is constructing in this presidential campaign is dishonest and dangerous, for the left and for France.”

The tension between Ms Royal's campaign team and the party's headquarters, situated just round the corner on Paris's left bank, is palpable. Having failed to draw on the experience of the party elephants, such as Dominique Strauss-Kahn and Laurent Fabius, for fear of damage by association, she has received in return only grudging backing from them. She asked Mr Strauss-Kahn, a former finance minister, to work up an income-tax policy, only to ignore his conclusions. “Fabius and Strauss-Kahn are both convinced she'll lose,” says one insider. “That is why they are doing only minimum service.”

Now Ms Royal has decided to do things her own way. She has reaffirmed her “liberty” and returned to her old campaign technique: surprising her base with unorthodox ideas. This week she stunned her anti-capitalist wing by insisting that “we must throw out the ideology of punishing profits.” Days earlier, she tried to reclaim the value of patriotism by arguing that Socialists should sing the “Marseillaise”, the national anthem, at party meetings, and that French people should keep the tricolour in their homes. “National identity is not the monopoly of I don't know which current of the extreme-right,” she said.

Naturally, all this has caused consternation in left-leaning Paris salons. Born of the Internationalist movement, the left is uncomfortable with patriotism. And it seems a strange way to combat the threat from the centrist Mr Bayrou. In particular, the hard-left candidates, now enjoying by law equal air-time with the four bigger names, have been indignant. Olivier Besancenot, one of no fewer than three Trotskyite presidential candidates, put it thus: “We have Nicolas Sarkozy running after Le Pen. If the left runs after Nicolas Sarkozy, you can guess who will reap the benefit: Jean-Marie Le Pen.”

Yet it could be that Ms Royal is not trying to reach out to the centre at all, but rather to working-class voters who drifted to Mr Le Pen in 2002. Her intent may be precisely to appeal over the heads of Paris's chattering classes, provoking a deliberate confrontation between polite opinion and popular sentiment. Many factory workers are fretful about globalisation, and the loss of jobs to low-cost countries, and want to be reassured about a strong nation-state. “This is not aggressive nationalism, it is patriotism,” says Pierre Martin, a political scientist at Sciences-Po in Grenoble. “If she is to be elected president, she needs to be able to embody the nation.” Her latest slogan, which plays on both her femininity and that of the French word, as well as her idea of participative democracy, is “La France présidente”.

The battle for the working-class vote pits her directly against Mr Sarkozy, whose campaign-trail stop of choice remains the factory floor. He has also honed a tough line on matters of immigration and “national identity”, as well as on crime, in an explicit bid to woo voters tempted by Mr Le Pen. Some in Mr Sarkozy's team are more worried by the first-round threat from Mr Le Pen than by Mr Bayrou. This week violent clashes broke out at the Gare du Nord, which serves the Paris *banlieues*, after a routine ticket-check. If they continue, Mr Le Pen will surely benefit.

Although Mr Le Pen rarely scores above 14% in the polls, he scooped 17% in the first round in 2002. Some analysts reckon that he will this time get at least 18% in the first round because some of his supporters, for reasons of stigma, are disguising themselves in opinion polls as Sarkozy voters. As it is, some 5% of voters telling pollsters that they prefer Mr Sarkozy concede that they might in fact vote for Mr Le Pen on the day. This may not be enough to secure Mr Le Pen a place in the run-off, though that cannot be ruled out. But it could certainly hurt Mr Sarkozy.

Mr Sarkozy's first-round lead may thus be more fragile than it appears. Added to this are the 40% or so of voters who say they could still change their minds. On balance, unless Mr Bayrou finds new traction, the odds are still on a Ségo-Sarko run-off. But given the electorate's penchant for ballot-box rebellions, all predictions at this stage look perilous.

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Socialist women in Europe

Ladies with punch

Mar 29th 2007 | COPENHAGEN
From The Economist print edition

How Scandinavia may beat France to elect a Socialist female political leader

WHEN Ségolène Royal announced her run for the French presidency, a Socialist rival sneered: “Who would look after the children?” Such a question would be unthinkable in Scandinavia, where working mums are the ideal. Two such—Helle Thorning-Schmidt in Denmark and Mona Sahlin in Sweden—are angling for new jobs: to be their country's first female prime minister.

The two have much in common. Both are Social Democratic leaders in opposition to centre-right governments; both came to the top after replacing older men who had just lost elections. Ms Thorning-Schmidt (pictured left) may have the better prospects. Denmark's next election is due by February 2009. Megafon, a pollster, has put the Social Democrats top of the polls for six months in a row. That is a worrying reversal for Anders Fogh Rasmussen, the prime minister, whose Liberal Party trounced the Social Democrats in 2005.

AP

From Denmark to Sweden, with roses

The polls are a remarkable rebound for Ms Thorning-Schmidt. Seen as a revitalising force when she took over the leadership in April 2005, she was soon outmanoeuvred by government spin that portrayed her as an *ingénue* who knew more about designer handbags than politics. Shedding her image as “Gucci Helle” has been a hard slog. But her quest to reassert the party's welfare credentials has been helped by revelations of falling standards in health care. Newspaper stories of long hospital waiting-lists and a recent documentary showing staff abusing residents at a retirement home have undermined Mr Fogh Rasmussen's claim to be a safe guardian of the welfare state.

Capturing the welfare agenda, and thereby wooing women voters, is also a priority for Mrs Sahlin (pictured right). At her inauguration as the new leader of Sweden's Social Democrats two weeks ago, she reiterated a famous pledge by Olof Palme, the Swedish prime minister who was assassinated in 1986, to focus on jobs, the environment and peace, and then added a priority of her own: welfare. Her speech won an enthusiastic reception from the party faithful.

Yet the centre-right Fredrik Reinfeldt, who ousted the Social Democrats after 12 years in power last September, is still very popular. A recent poll gave him a 63-37 edge over Mrs Sahlin as the more capable leader. Mrs Sahlin has time: Sweden's next election is not due until 2010. But if Ms Royal's campaign in France keeps faltering, it is Ms Thorning-Schmidt who has the best chance of becoming only the second female Socialist leader of a European country.

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Romania's government

About turn

Mar 29th 2007 | BUCHAREST
From The Economist print edition

The Romanian government splinters. The new one will be even less sturdy

MAKING Romania a credible candidate to join the European Union was a remarkable achievement. But keeping it a credible member may prove even harder. That is the depressing lesson from the death throes this week of the three-year-old coalition that brought Romania, with its 22m people, into the EU in January.

Weeks of acrid public infighting since then have paralysed the government, which unites the Liberals, led by the prime minister, Calin Popescu Tariceanu, the Democrats (the party of the president, Traian Basescu) and a group representing the Hungarian minority which has been a fixture of every government for a decade. In February Mr Basescu and Mr Tariceanu argued furiously on a live television programme, during which the president accused the prime minister of lying.

Romania has been without a foreign minister for over a month. Mr Tariceanu's candidate, a member of the European Parliament, was vetoed by Mr Basescu on grounds of “insufficient diplomatic experience”. Mr Tariceanu has appealed to the constitutional court and is now acting as foreign minister himself. He seems to have been egged on in his tactics by two hard-bitten (and foreign) political consultants, Arthur Finkelstein and Tal Silberstein.

The breaking point came this week when the Liberals said they would stay in the coalition only if the government pulled troops out of Iraq, and dumped three ministers, including the non-party justice minister, Monica Macovei. When the Democrats refused to agree, Mr Tariceanu pronounced the government “dead” and started work on forming a new minority administration with the Hungarians. He is hoping for tacit backing from the ex-communist Social Democrats.

The outcome is unlikely to be a government burning with reforming zeal. It was only by sidelining the sleazy Social Democrats that Romania managed to get its EU membership application back on track. The likely successor for Ms Macovei in the new government is a senator from the Hungarian party, Gyorgy Frunda. He will have a job persuading outsiders and the political bosses at home that he brings the same moral fervour and determination to the task as his predecessor.

Ms Macovei's efforts to reform the legal system, reduce political interference and end corruption were vital in persuading Brussels that Romania was serious about modernising its state bureaucracy. But her intolerance of local political habits, although admired by the public, won her few friends in the elite. She had already lost a no-confidence vote in the Senate. Her reforms are incomplete, though many are too far advanced to stop.

The government crisis has come just before Romania reports to the EU on its progress. The European Commission will publish its own assessment in June. It is unlikely to trigger the safeguard clauses that allow Brussels to cut aid and stop co-operation with Bulgaria and Romania if either starts backsliding. But it will make uncomfortable reading. A report by Romania's magistrates' council highlights the continuing problem of incoherent and onerous legislation, understaffing in the judicial system and the small number of big corruption cases resolved. It notes that Romania has the worst record, after Russia, at the European Court of Human Rights. Cases lost typically involve infringement of property rights or maladministration.

The Democrats, Romania's most popular political party, hope that Mr Tariceanu's efforts to form and sustain a minority government will end in failure. They (and Mr Basescu) want an early general election, which might even be held at the same time as the (postponed) European election this summer.

Ordinary Romanians treat the whole political circus, fought out with scandalous allegations and screeching headlines in the highly partisan media, with disdain. The economy is growing at a cracking 7.7%;

unemployment and inflation are falling; EU membership is highly popular even before much cash flows in.

In that sense, indeed, Romania's story is a familiar one. All across ex-communist eastern Europe, economies are growing fast, even as the politicians supposedly running them squabble and dither. That may be fine for now. But how these still-fragile countries would fare in an era of currency wobbles or tight money may be another story.

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Italian foreign policy

Hanging in there

Mar 29th 2007 | ROME
From The Economist print edition

The government survives—and stirs a debate on responses to kidnappers

ROMANO PRODI'S shaky centre-left government this week laid to rest, at least for now, the issue that almost caused it to collapse last month. On March 27th the upper-house Senate voted to keep paying for Italian troops abroad. Some 2,000 are in Afghanistan, where Italy's engagement is a source of anguished misgiving for the radical and pacifist left. Mr Prodi can no longer count on a majority in the Senate; in February a rebellion by two far-left senators, prompted by Afghanistan, almost brought his government down.

This week, Mr Prodi won a majority thanks to support from unelected life senators and from rebels within the centre-right opposition. That made the outcome more damaging to the main opposition leader, Silvio Berlusconi. Mr Berlusconi saw the vote as a chance to defeat the government, but others on the right felt they could not refuse support for Italian troops. They included a member of Mr Berlusconi's own party and all 20 senators from the Union of Christian Democrats (UDC), the third-biggest party in the centre-right alliance that lost the election in April 2006.

AFP

A freedom fag for Mastrogiacomo

With one former UDC senator having already deserted to the centre-left, there is speculation that the party could become a semi-detached backer of Mr Prodi. The UDC's leader, Pier Ferdinando Casini, has ruled this out. But he appeared to leave open the possibility of joining a rejigged coalition, arguing that Italy needs a more stable government. Unfortunately, the UDC, whose power base is in the south, is notoriously chary of the liberal economic reforms that Italy also needs.

Since the lower house had already approved an identical motion on funding, Italy's contribution to the NATO-led forces in Afghanistan is assured for another year. Yet the ripples caused by Italy's anguish over Afghanistan continue to spread—and this week lapped at NATO itself. NATO's secretary-general, Jaap de Hoop Scheffer, said that he would begin talks over forming a common response to hostage-taking. His initiative seems to have been prompted by Italy's handling of the March 4th kidnapping by the Taliban of an Italian journalist, Daniele Mastrogiacomo.

In Italy the kidnap revived misgivings about any involvement in Afghanistan, increasing the risk of a government defeat in the Senate. But it also teased out some big differences between Italy and most of its allies. Italy is influenced by Roman Catholic views on the sanctity of life. It also has a history of paying ransom money.

It is not clear if the Taliban were after a degree of political acceptance or concrete gains. But they got both: talks, albeit indirect, with the Italian authorities, and the release of five prisoners (including, reportedly, the brother of the Taliban's top commander, Mullah Dadullah). The five men had been held by the Afghan authorities, who said they were freed “because we value our relations and friendship with Italy”. This remark suggests that the Italians had threatened to breach the allies' united front in Afghanistan if they did not get what they wanted.

Italy is not the only country to have struck a deal with insurgents. Germany is suspected of paying several multi-million dollar ransoms, notably for the release in 2005 of an archaeologist held in Iraq. But Mr Mastrogiacomo was the latest of at least half a dozen Italian hostages in different parts of the world who are thought to have been ransomed in the past two years. And rarely has a deal been as openly

acknowledged as this one. NATO is right to be debating the problem.

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Turkish politics

Erdogan's dilemma

Mar 29th 2007 | ANKARA
From The Economist print edition

Elections for a new Turkish president in May are already causing ructions

PRESIDENTIAL elections in Turkey have never been smooth affairs. Meddlesome generals have always wanted a say. In 1961 a respected academic was forced to withdraw by two gun-toting generals. But these days the army doesn't wave guns around, and in its eagerness to join the European Union, Turkey has become decidedly more democratic (though the election is indirect, via a parliamentary vote).

Yet the army's shadow is still looming over the presidential election to be held when the incumbent, Ahmet Necdet Sezer, a fiercely secular former judge, steps down in early May. This time round, the generals and their secular allies claim that Ataturk's republic is at stake.

That is because Turkey's mildly Islamist prime minister, Recep Tayyip Erdogan, whose ruling AK Party has a big majority in parliament, is thinking of taking the top job himself. With the power to appoint the head of the army (NATO's second-biggest), all of Turkey's judges and its university rectors, a President Erdogan could advance his covert Islamist agenda unimpeded, his critics say. With his headscarf-wearing wife, Emine, as first lady, the fall of the secular republic would be complete.

Are things really so bad? In four years as prime minister, Mr Erdogan has tried a few Islamist moves: to outlaw adultery, to expand opportunities for graduates of *imam hatip* schools for training clerics, to install a former Islamic banker as head of the central bank. But on the whole he has not tampered with Turkey's secular, pro-Western orientation. His party did not field women candidates who wore headscarves in the last election—nor will it in the parliamentary election in November.

Meanwhile, the bold domestic and judicial reforms enacted by the Erdogan government secured Turkey the prized start of EU membership talks in October 2005. The economy is doing nicely, with annual growth running at 5% or more. Recent opinion polls show that the AK Party continues to have a big lead over its rivals.

Some say that the army's real reason for opposing Mr Erdogan is its fear of a further erosion of military power once the compliant Mr Sezer is gone. What can the army do to stop Mr Erdogan? Short of a military coup, precious little. As Umit Boyner, a prominent woman industrialist, says, “The days of coups are over.” This is not to say the generals won't do their utmost to make life miserable for Mr Erdogan if he becomes president. Besides keeping up their anti-government rhetoric, they may shun presidential functions or National Security Council meetings. So Turkey could become more tense, which may be why, despite the AK Party's popularity, most Turks are against Mr Erdogan's presidency. It also explains why, with two weeks left for candidates to register, Mr Erdogan has not yet declared. “Will he or won't he?” is the hottest question on the Ankara cocktail circuit.

Even his supporters see plenty of reasons why he should not. Mr Erdogan has unrivalled charisma and could lead the AK Party to another big victory in November. Many businessmen fret that without him the party, a loose coalition of nationalists, Islamists and liberals, could fall apart, plunging Turkey back into instability. As president, Mr Erdogan's autocratic instinct might spoil relations with Abdullah Gul, the foreign minister, who is his most likely successor and is no poodle.

Indeed, a growing number of voices say that the statesmanlike Mr Gul would make a better president. Determinedly pro-European and unsullied by corruption charges, Mr Gul has moral authority as the man who led the rebellion against a former Islamist prime minister, Necmettin Erbakan, to found the AK Party. Unlike Mr Erdogan he speaks fluent English and has spent time abroad. The only hitch is that his wife, too, covers her head. But so do over half of Turkish women.

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Germany and its Muslims

Soft on suffering

Mar 29th 2007 | FRANKFURT
From The Economist print edition

AP

The adverse consequences of judicial appeasement

INDIGNATION greeted the news of a (female) judge's decision to deny a Moroccan woman a quick divorce on the ground that the Koran allows husbands to beat their wives. The judge, who was removed from the case, seemed to imply that the woman, who got married in Morocco, should take beatings as part of the deal. The tale has aroused fears that the German judicial system may go too far to accommodate immigrants.

Legal experts were quick to point out the sovereignty of German law over any other in Germany. But with 3.3m Muslims, of whom 2.2m are Turkish, striking a balance is not easy. Consider “honour killings”, in which the victims are usually young women who have refused an arranged marriage or strayed outside one, and the killers often the husband or brother. There were 48 cases between 1996 and 2004, says the Federal Crime Office. But data on trials have not been collected—and a few cases suggest that the punishment can be light.

For example, three brothers of Hatun Surucu, a Kurdish Turk who rebelled to become a single mother, were tried last year for shooting her dead in Berlin in February 2005. The youngest was jailed for just nine years and three months; the other two walked free for lack of evidence. In a poll after the trial 65% of respondents said the whole family should be returned to Turkey.

In another case last November a judge in North Rhine-Westphalia acquitted a man accused of killing his brother's former girlfriend, despite strong signs that it was an honour killing. Only in Denmark has an entire family been punished for an honour killing. German courts err on the side of caution, partly because of Nazi history. “No public servant wants to be accused of racism, but women suffer as a result,” says Myria Böhmecke at Terre des Femmes, a women's rights group.

The real trouble lies in failure to integrate Muslim immigrants, and to improve education and the lot of women. The first generation of Turkish *Gastarbeiter* in the 1960s was expected to go home, but many stayed. Even now only 19% of those of Turkish origin have taken German nationality. Many of the young are alienated at school and home alike. Unofficial figures this week showed an increase of 8% in right-wing acts of racial violence in 2006. That figure may keep rising if judges are seen to be too soft on unacceptable practices by Muslims.

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Charlemagne

Two cheers for apathy

Mar 29th 2007
From The Economist print edition

Peter Schrank

Few people cared about the European Union's 50th birthday party. But apathy has its consolations

NOBODY has a good word for apathy. Arnold Toynbee, a historian, thought it defined the penultimate stage of decadence. Civilisations proceed, he said, from bondage to spiritual faith; from spiritual faith to courage; from courage to liberty; from liberty to abundance; from abundance to selfishness; from selfishness to apathy; from apathy to dependency; and from dependency back to bondage. Apathy is also anti-democratic: democracy requires the informed consent of the governed, and will not last if voters can't be bothered.

Europe's leaders also fret that apathy is anti-European. Popular indifference, they fear, leaves the European Union's institutions vulnerable to the gusts of popular indignation. Their worry is understandable. The polling evidence, for what it is worth, shows that people who say they know a lot about the EU tend to support it. Those who know nothing and care less tend to be Eurosceptics. So governments and public institutions naturally seek to combat Euro-apathy as much as they can: by public-relations campaigns, by exhortations that Europe must dream (Jacques Delors's admonition against indifference)—or by stunts such as last weekend's birthday bash in Berlin to mark the 50th anniversary of the EU's founding Treaty of Rome.

If apathy were indeed a threat to European integration, there would seem to be much reason to worry. Apathy is lolling about everywhere. Voter turnout has fallen in every election to the European Parliament since the institution was created. In the most recent one, in 2004, it slumped below 50%—a lower rate than India's parliamentary polls. The gap between turnout in national elections and in European ones is widening, so the problem seems especially acute for the EU.

Britain's prime minister, Tony Blair, has a website where people can file online petitions. It is an unscientific measure of popular concerns, but intriguing nonetheless. A recent petition asking Britain to hold a referendum on any EU constitution got a few thousand electronic signatures. One opposing road pricing got a few million.

It is hard to measure degrees of apathy non-anecdotally because people tend to react badly to polling questions such as “Do you care two hoots about the EU?” But lack of knowledge might be taken as a

proxy for lack of concern. Here too the evidence is discouraging. Some three-quarters of Europeans, asked to rate their own knowledge of the EU, say it is modest or non-existent, and this share is rising not falling.

Yet is it really true that apathy is an obstacle to European integration? A certain amount of apathy is understandable, perhaps inevitable. The EU's institutions are remote and deliberately complex (deliberately in the sense that they seek to balance pan-European decision-making with national checks and balances). Most voters have no idea who represents them in the European Parliament and would not recognise a European commissioner if one turned up on their doorstep.

There are also reasons why apathy might have grown. Historically, the term entered common use after the first world war, when it was associated with shell-shock and depression. The EU is suffering from the bombshell when French and Dutch voters rejected the draft constitution in 2005. It can also be argued that economic sluggishness and high unemployment (at least until the current recovery) have led to a continent-wide depression.

More important, apathy has its compensations, especially for Europhiles. Without it, European integration would not have gone as far as it has. There was almost no debate about the content of the constitution in the referendum campaigns in Spain or Luxembourg, which approved it by wide margins. The voters who looked most closely at the text were in France and the Netherlands. Similarly, Britain debated the merits of the single currency more extensively than any other country. But Britain stayed out, while others adopted it without discussion.

European integration can proceed without popular enthusiasm because of its character: the EU has a large regulatory component and much integration proceeds through rules-based co-operation. Rules and technical standards are peculiarly unsuited to mobilising popular opinion, whether for or against. Most people are content to leave them to experts. Integration by regulation proceeds under the voters' indifferent gaze. In that sense, apathy is the Europhiles' best friend.

Angela Merkel, the German chancellor, has learned this lesson. The “Berlin declaration” to mark the 50th birthday was written in secret and signed only by the EU's own representatives: Ms Merkel as holder of the EU presidency and the heads of the European Commission and Parliament. It seems likely that any revised constitutional treaty will also be cooked up in semi-secret, with the aim of ratification by national parliaments, not referendums. Let sleeping voters lie.

The dogs of bore

But there is a further manifestation of apathy to consider: a behavioural condition associated with it, known as “learned helplessness”. In 1965 a psychologist, Martin Seligman, subjected two groups of dogs to electric shocks. The first group could end the punishment by pressing a lever. These dogs recovered quickly; in a subsequent experiment, they learned to avoid further shocks by jumping a low wall. The second group had a lever that did nothing. They became apathetic and in the subsequent experiment simply cowered on the electrified floor, unable to escape the shocks. They had “learned helplessness”.

In Europe, the treaties of Maastricht and Nice were rejected by Danish and Irish voters, only to be largely implemented later. If the constitution is successfully revived—a big if—it would continue this pattern. Some EU leaders may hope that, if they do this often enough, apathetic voters will learn that they are helpless to stop further integration, even when they want to.

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Northern Ireland

The impossible becomes reality

Mar 29th 2007 | BELFAST
From The Economist print edition

AP

The meeting of Ian Paisley and Gerry Adams offers hope for the future

Get article background

THE people of Northern Ireland have long borne the unbearable weight of history. The terrorist outrages that cost so many lives in the past three decades were a bloody chapter in an underlying conflict between the Protestant majority, which feels British, and the Catholic community, which considers itself Irish, that goes back more than three centuries. But this week a page of history was turned and the people of Northern Ireland dared hope for a peaceful future.

One meeting and one picture made the difference. Gerry Adams and Ian Paisley have long appeared the irreconcilable hard men of the province's fraught politics. Mr Adams is the president of Sinn Fein, a party born as the political wing of the IRA, which sought to smash the union with Britain through terrorism. Mr Paisley, who leads the DUP, the largest unionist party, is an 80-year-old Protestant cleric who has spent his life denouncing the very idea of a rapprochement with republican leaders like Mr Adams. Yet on March 26th the two men met in a choreographed display of compromise.

There was no handshake; but the readiness of the two men to sit no more than an arm's-length away at Stormont, the historical home of regional government in Northern Ireland, was charged with symbolic resonance. The words counted, too. Mr Adams sought to reach out beyond his republican supporters, saying that it was “a time to be mindful of the common good and of the future of all our people”. Mr Paisley looked forward rather than back, saying that “We must not allow our justified loathing of the horrors and tragedies of the past to become a barrier to creating a better and more stable future.”

The historical road to this extraordinary spectacle has been a long and winding one. Over 20 years ago, Margaret Thatcher agreed that the Irish government should be involved in British attempts to bring about peace in Northern Ireland. That agreement, vilified at the time by Mr Paisley, paved the way for the IRA to forsake terrorism in the 1990s and for Sinn Fein to pursue the peaceful political pursuit of power. John Major, the Conservative prime minister who succeeded Mrs Thatcher, then took a considerable risk in opening negotiations with Sinn Fein in the mid-1990s.

Since Tony Blair won power in 1997 he has devoted much effort to coaxing the two sides in the conflict to work together in governing Northern Ireland. Almost nine years ago Mr Blair spoke of the “hand of history” while forging the Good Friday agreement. Its main aim was to restore regional government to Stormont, which had been suspended since 1972 when Britain imposed direct rule. Crucially, power was to be shared between the parties in the assembly rather than being monopolised as before by the unionist

majority.

However, the strategy stumbled on two obstacles. First, the IRA wriggled and turned on the hook of decommissioning its weapons; and as long as there was doubt about whether this had happened, many unionists continued to mistrust Sinn Fein's sincerity in eschewing violence. Second, the DUP refused to back the strategy, which left David Trimble, leader of the more moderate Ulster Unionist Party (UUP), vulnerable to an erosion of support to Mr Paisley's party precisely because of that mistrust.

Amid mutual suspicion and recrimination after a row about IRA spying at Stormont, the experiment in power-sharing broke down in October 2002. The assembly was suspended and there was a return to direct rule from Westminster. But Mr Blair, anxious to secure his legacy, did not give up hope. Last October, at St Andrews in Scotland, the government embarked on a policy of deadlines in order to resuscitate power-sharing. Peter Hain, the Northern Ireland minister, threatened that if the deadlines were not met, then that would end rather than suspend the devolution of power to Stormont.

The deadlines—the first of which was in November—have fallen like skittles. Indeed this week's historic meeting marked another missed deadline, which Mr Hain had previously said was “set in stone”. This delay, however, is of little matter given the firm commitment that Mr Paisley has at last given to share power with Sinn Fein starting on May 8th, in just a few weeks' time.

The new power-sharing agreement has much more chance of succeeding than the old one, precisely because Mr Paisley has signed up to it. Unlike the hapless Mr Trimble, he will not be exposed to sniping from his flanks as Mr Paisley so skilfully used to do. In any case, the DUP, which displaced the UUP as the largest unionist party in 2003, reinforced its pre-eminence in this month's election, winning twice as many seats as the Ulster Unionists.

The prospects are also helped by the fact that the IRA really has disbanded its military structures, according to a report by the Independent Monitoring Commission last year. Sinn Fein has also recently accepted the legitimacy of the Police Service of Northern Ireland—a central condition set by the DUP which appeared a possible stumbling-block after St Andrews.

Both Mr Paisley and Mr Adams invoked God and pledged a new beginning when they met this week. But they also made a more prosaic joint plea to Mr Hain to ensure that separate water bills will not be issued for the first time in Northern Ireland, which would have occurred without a deal. After all the bloodshed in Northern Ireland, it may seem a mundane concern for local politicians. It is also perhaps a favourable augury for the next chapter in the province's history.

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Homebuilding

Builders on the block

Mar 29th 2007
From The Economist print edition

British housebuilders are getting bigger

IN BRITAIN'S overheated property market, the only things hotter than the prices of the houses for sale are the firms that build them. On March 26th Taylor Woodrow and George Wimpey agreed upon a £5 billion ($9.8 billion) merger to create the country's largest housebuilder.

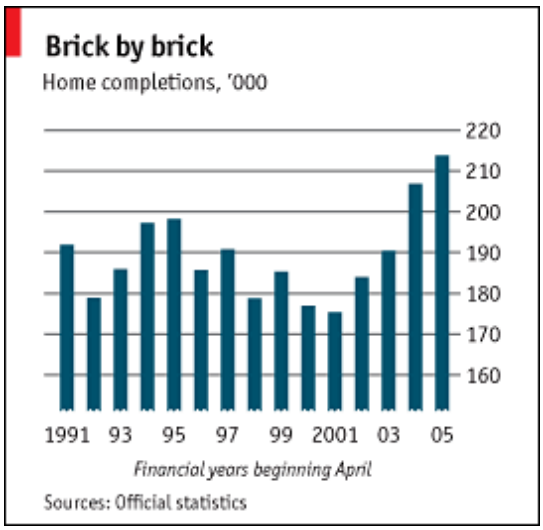
The financial logic of the deal seems hard to fault. Last year the two firms built about 22,000 homes in Britain, a tenth of all completions. Together they will be able to trim costs by more than £70m a year and they will be in a stronger position in America, where they have operations in Florida, California, Arizona and Texas.

The merger may be the biggest of its kind but it is not the first, as a wave of consolidation sweeps through the industry. Of the country's ten biggest builders in 2002, only six remain. The rest have been taken over by the three largest firms. Four years ago the top three firms controlled about 20% of the market; now they have around 30%.

The upheaval is transforming an industry that Kate Barker, a member of the Bank of England's monetary-policy committee, heavily criticised in 2004. Ms Barker was investigating why the supply of new houses had responded so sluggishly to the house-price boom, with completions actually falling to a low of about 175,000 in 2001, although they have since staged a recovery (see chart). One reason she highlighted was a fragmented and inefficient industry, whose firms competed not for customers by offering better homes or building them more cheaply but for that scarce British commodity, land with permission to develop. Local firms dominated their regions because they often stood a better chance of gaming the planning system than their national rivals. Quality often suffered because demand was so great that builders could sell all but the shoddiest of homes.

Two things have since changed. First, publicly quoted builders now look vulnerable to takeovers from rivals or private-equity firms because rising house prices have pushed up the value of their land faster than their share prices. This is partly because they value land on their books at its historic purchase price, rather than its current price. So it has often been cheaper to get land by pouncing on a rival than by buying it on the open market, says Kate Moy, an analyst at Teather & Greenwood, a stockbroker.

The second change is that Britain may soon weaken longstanding rules that have preserved “green belts” around towns and cities. Another report by the energetic Ms Barker, released in December, argued that farms and parks will have to be concreted over to provide living space for an extra 209,000 new households each year over the next two decades. One consequence is that firms may soon be able to buy land in suburb-sized chunks.



The potential change has sparked a flurry of interest in land adjoining towns and cities that may be reclassified. That seems to be shifting the balance of power from local builders to large firms with enough capital to buy rights to huge tracts of land. A sign of the shift, says Peter Damesick, head of research at CB Richard Ellis, is that even institutional investors with little previous experience are now getting into the game of speculating on town-edge land.

With interest in land running high the merger between George Wimpey and Taylor Woodrow is unlikely to

be the last, if indeed it proceeds. Other builders and private-equity firms are running their slide-rules over the two companies, whose shares have gained on optimism that a counterbid may emerge. And several smaller housebuilders are also expected to fall to bids soon. Given the industry's generally shoddy customer service, few of them will be missed.

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The Home Office

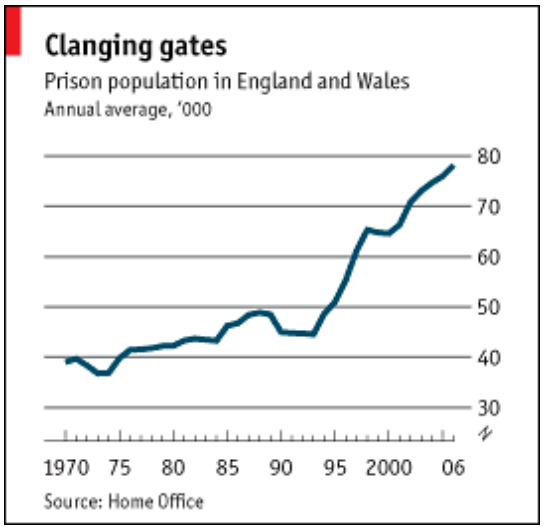
Toughing out a rethink

Mar 29th 2007
From The Economist print edition

Administrative shake-ups and a policy swerve are an admission of failings

OF ALL Tony Blair's slogans, perhaps the most famous was his promise as shadow home secretary in 1992 that Labour would be tough on both crime and the causes of crime. This deft piece of political triangulation helped to propel Mr Blair to the Labour leadership two years later, and has since come to symbolise the prime minister's careful straddling of left and right.

A decade on, despite unrelenting legislative effort and huge increases in money spent, a perpetual air of crisis hangs over the criminal-justice system. New terrorist threats, rising violent crime, bulging prisons and a Home Office declared "not fit for purpose" last year by John Reid, the latest cabinet heavyweight dispatched to grapple with its apparently insoluble problems, have together forced the government to re-think.



On March 29th, Mr Blair announced a radical shake-up of the 225-year-old Home Office in which the troubled department will be split. Prisons and probation will be hived off into a new Ministry of Justice, leaving the Home Office to deal with terrorism, security and immigration. The move comes after months of Whitehall lobbying by Mr Reid.

Two days earlier, with rather less fanfare, Mr Blair announced another important change of tack. Billed as a "major new vision", the new strategy is less gung-ho about tough sentences and keener on rehabilitation. It recommends more effective punishments in the community (that is, alternatives to prison) and increased availability of training for prisoners, 70% of whom currently leave jail with no work or education lined up. Drug detox programmes will be extended to the third of addicted prisoners not currently treated.

Mr Blair now likes the sound of a new slogan—"targeting the offender, not the offence"—a policy that is already being tried but will now get greater weight. The idea is that the most prolific offenders will be released only subject to strict conditions, such as banning them from meeting old criminal colleagues, which if flouted will result in a swift return to jail.

The policy is based on the notion that a "hard core" of 100,000 very bad people commit half of all Britain's recorded crime; keep tabs on them and all will be well. However, Richard Garside of the Centre for Crime and Justice Studies at King's College London, dismisses the idea. He says that since most offences are not recorded, piling resources into those that are known about ignores the bigger part of the problem, which includes underreported crimes such as domestic violence.

Plans to extend the police's powers and to identify future young offenders from birth have also raised the hackles of civil-liberties groups. Labour can live with that. However, a bigger worry for the government is whether the new crime policies will work in practice. One apparently promising idea, for example, is to set up special courts and hybrid prison-hospitals for the mentally ill. But whether or not this succeeds will depend on how it is implemented, says Juliet Lyon of the Prison Reform Trust. If it means moving sufferers from prison into hybrid jails, all well and good; the danger is that it could work the other way, sucking them out of hospital and into the penal system.

There are also doubts about whether the splitting up of the Home Office will yield the hoped-for benefits. It is easy to see why Mr Reid is keen for a more manageable department. But there is a risk that that the

division will worsen relations between different agencies currently part of the Home Office. Given that poor communications between those agencies has been at the root of many of the department's problems, it is likely, as Nick Clegg, a Liberal Democrat spokesman, observed, that the devil will be in the detail.

As for Mr Blair, his latest attempt to be tough both on crime and the causes of crime will come into effect on May 8th—the day before he is widely expected to announce his resignation from office.

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The casino vote

An unexpected spin of the wheel

Mar 29th 2007
From The Economist print edition

Gambling policy is a risky business

THOSE with moral objections to betting can finally draw some comfort from the government's plans to bring new casinos to Britain. As events this week confirmed, the enterprise has been a clear lesson in the perils of gambling.

In January the smart money was on Britain's first ever super-casino being given to Blackpool, a gaudy, bawdy Victorian seaside town in the north-west of England, which is in sore need of a dash of glamour. Instead, the government's independent selection panel chose nearby Manchester, a boomtown of the 1990s that bookies had deemed a rank outsider. On March 28th a lot more smart money was lost because of a parliamentary vote against giving the go-ahead to the super-casino and 16 smaller ones. As expected, the House of Commons passed the motion, but the Lords surprised everyone, defeating it by just three votes.

Alamy

Another chance for Blackpool?

What caused the upset? One set of opponents were those who have long opposed gambling on principle. “All addictions are imprisonments for the soul,” according to Rowan Williams, the Archbishop of Canterbury, who made a rare intervention to cast his vote in the Lords against the plan. Others worry about the disproportionate amount spent by the poor on other forms of gambling, such as the National Lottery.

Alone, these rebels would have been defeated easily enough. But since January a second group has been protesting against the decision to site the super-casino in Manchester. This is partly born of the sheer disappointment of Blackpool, which had staked so much on its bid. But it is also owing to fears about plonking a gigantic gambling den in Manchester, in the middle of a poor residential area. Gamblers would have come to Blackpool from far and wide for occasional trips—rather like a miniature (and chilly) version of Las Vegas. In Manchester, much of the custom is expected to come from locals who live close enough to develop a habit. Fatally for the government, it ended up facing these two quite distinct fronts of opposition, according to Philip Cowley of Nottingham University. When added together, they were just enough to tip the balance.

One option for the government now would be to switch the site to Blackpool. However, this might prompt a legal challenge with a fair chance of success. The Casino Advisory Panel, which made the fateful choice, was working to a tight and rather peculiar remit, laid down by ministers. Its main objective, ahead of all the stuff about regeneration on which Blackpool scores well, was to choose somewhere that would allow the social effects of the casino to be assessed. Blackpool's diverse visitors “would make tracing effects difficult if not impossible”, noted the panel in its final report. Manchester, by contrast, would be “a good place in which to test social impact”.

A quick redraft may allow the 16 smaller regional casinos to go ahead without much contest. The super-casino may take longer to negotiate—by which time Gordon Brown, a known sceptic, may be prime minister. Place your bets.

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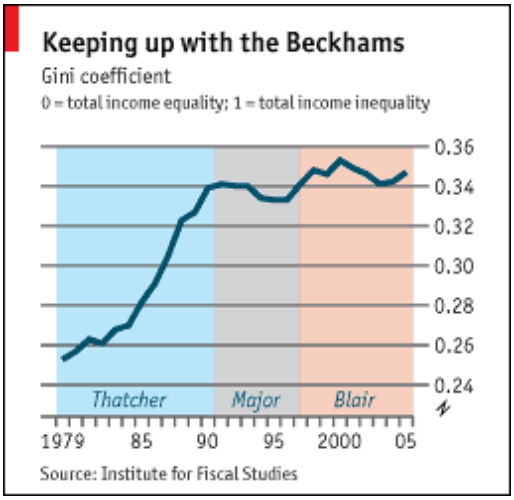
Income inequality

Divvying up the cake

Mar 29th 2007
From The Economist print edition

A surprise rise in child poverty casts the government's strategy into doubt



TONY BLAIR'S most famous pronouncements on wealth aim at opposite ends of the income distribution. The prime minister once declared that Labour would abolish child poverty within a generation. He also said he had no burning ambition to make sure that David Beckham, a commodity with a sideline in football, earns any less. In putting these two thoughts together, Mr Blair was sticking to a consensus that has held for the past 20 years. Broadly, this says that the rich can get as rich as they like, so long as the poor are getting better-off too.

However, new figures out this week suggest that the bargain isn't working. The number of poor children, as defined by the government, has grown by 100,000 in the past year. Furthermore, overall income inequality has grown too (see chart), despite hefty redistribution under Gordon Brown, the chancellor of the exchequer.

The failure of this part of the bargain is starting to call into question the other part. Using tax data going back a century, Tony Atkinson, an economist, has calculated that the incomes of the richest 1% have followed a U-shape for the past 60 years, and are now back to the level they were at just after the second world war, when Britain was still a place of great estates and silver soup tureens. Yet ever since Margaret Thatcher's government in the 1980s, this rise has been tolerated, on three conditions: that average incomes are rising too, that there is enough income mobility to prevent the place from feeling too oligarchic, and that those at the bottom are getting less poor.

These terms may be breaking down now, presenting a problem not just for Mr Blair but for his successor—almost certainly Mr Brown—and also for the other main parties. The Conservatives are also keen to reduce child poverty. In a deliberately provocative speech, David Cameron, the Tory leader, adopted the metaphor of a caravan crossing the desert to highlight the importance of making sure that the income growth of the poorest keeps pace with the rest. The provocation was all the greater since the phrase had been coined by Polly Toynbee, who writes for the *Guardian* and is an unabashed soaker of the rich.

The trouble is that all three of the conditions have taken a turn for the worse. Average incomes have now grown slowly for the past four years. The last time they slowed to this extent was in the mid-1990s, when there was greater appetite for bringing the rich low. Admittedly, part of this pique was owing to the fact that some of them were running utility companies that had been privatised. But the current recipients of windfalls—private-equity partners and money managers—are not much more loved. Getting rich by starting a company is one thing; getting rich by moving money around is another.

As a result of these movements at the top end, Britain “now has a more American pattern of income distribution”, according to Oliver Letwin, the Conservative Party's philosopher-in-chief. But, Mr Letwin notes, there is not yet an American-style culture of giving back to society in return for success. Nor is there a British version of the idea that anyone can make it if they apply themselves, even though Britain has a slightly more fluid society than America's. Instead, people worry that the great shift in social mobility that came with the expansion of higher education and of white-collar work has come to an end, leaving the people who did not benefit from it more stuck than ever. The view that freedom might increase inequality but would promote more social mobility has turned out to be false, says David Laws, the Liberal Democrat spokesman on work and pensions.

Meanwhile, this week's figures suggest that the incomes of those at the bottom are stalling. On March 28th the Institute for Fiscal Studies (IFS), a think-tank, noted that Labour's good record on child poverty—over half a million children have been lifted out of poverty since 1998—is less impressive when the focus is shifted to very poor children. If the poverty line is drawn at 40% of median household income rather than 60%—the government's definition—there has been no improvement since 1997. Adults without children have fared even worse: there are more of them living in relative poverty now than since records began in 1961.

Frank Field, a former Labour welfare minister, thinks these things, together with worries about unaffordable housing, are shifting the consensus on levels of taxation that has remained intact for decades. After Mr Brown's tax-cutting budget, new levies on the rich still look unlikely. But the 20-year-old settlement that Mr Blair so eloquently summed up is now looking increasingly shaky.

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Schools and colleges

Bridging the divide

Mar 29th 2007
From The Economist print edition

Vocational education gets an upgrade

NESTLED in a quiet street in south London, La Retraite offers, as its name suggests, a peaceful haven in Lambeth, one of the capital's more chaotic boroughs. Its pupils, all girls, mostly Roman Catholic, come from all over the world and speak more than 50 languages between them. Its exam results are excellent, despite an intake poorer and less fluent in English than the average. But from this autumn the school will be part of a huge experiment: the introduction of a set of qualifications unlike anything seen before in Britain.

On March 28th officials announced the schools and colleges that will teach the new “Specialised Diploma” from autumn 2008. The aim of the new qualification is to close the longstanding and equally long-lamented divide in British education between the academic and vocational. In Lambeth, a joint bid with the neighbouring council of Southwark has been given the go-ahead to offer the diploma in engineering to students from all over both boroughs, including those from La Retraite.

By 2013 the diploma will be taught in 14 subject areas, and the government has promised that every teenager in England should be able to study any of them. That will require schools like the ones in Lambeth to co-operate with others, since no single one could be big or well-resourced enough to offer full coverage, let alone teach them alongside GCSEs and A-levels, which will remain on the menu. Instead, they will have to work together, with students attending some classes in their own schools and colleges and if necessary travelling to partners for others.

One aim is to encourage more young people to stay on in school. Britain's record is woeful: it ranks 25th of 27 OECD countries in the proportion of 15-19-year-olds in education. Up till now the government has offered carrots, paying poor students to keep studying and rejigging apprenticeships to make them more academic. But soon it is to wield a big stick.

On March 22nd the education secretary, Alan Johnson, announced that from 2013 the education leaving age will rise to 17, and then to 18 in 2015. Teenagers who drop out of all education and training will be given attendance orders, and could face £50 fines or even criminal proceedings.

The government hopes, though, that the new diploma will be so attractive, with its emphasis on practicalities and its blend of the academic and the vocational, that things will rarely come to such a pass. Whether or not “Society, Health and Development” will fit the bill remains to be seen. Still, children keen to learn about health-and-safety legislation, penalties for youth offending and the importance of play for child development will soon have their wish come true.

The intention is to create qualifications that will be suitable for all students, not just would-be drop-outs. But some fear that the attempt to appeal to weaker students, together with the conservatism of academically successful schools and ambitious parents, will undermine this objective. Mr Johnson himself is openly worried. In a speech on March 9th he told a group of head teachers that the diploma could go “horribly wrong”. His big fear, he admitted, was that it would be offered only by schools with weak intakes, whereas those with high-flying students would stick to A-levels.

Mrs Howie, the head teacher of La Retraite, acknowledges the potential pitfalls of this ambitious educational reform, but nonetheless wants her school to be part of it. The practicalities bother her, in particular the mammoth task of co-ordinating across many institutions—“I don't believe a lot of the people talking about the new qualifications have ever tried to create a timetable,” she says tartly. However, she believes that it is vital to move from diagnosis to solutions in bridging the divide between the academic and vocational.

One crucial but unanswered question, though, is what Britain's universities will make of the new qualifications. According to Mr Johnson, when he asked heads of the elite “Russell Group” institutions if they would be accepting candidates with the diploma, they “looked at their shoes and went quiet”.

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Farm payments

Mucked up

Mar 29th 2007
From The Economist print edition

Unpaid subsidies provoke calls for blood

ONE of Labour's successes in office has been its management of Britain's economy. But when it comes to more prosaic administrative matters, its record is muckier. A string of procurement disasters, diligently catalogued by spending watchdogs and parliamentary committees, give the impression of chronic incompetence in project management. More evidence came on March 29th, when a committee of MPs issued a scathing report on the Rural Payments Agency (RPA), which is meant to distribute £1.5 billion of European Common Agricultural Policy (CAP) subsidies to British farmers.

The mess was some time in the making. In 2003 the European Commission reformed the CAP, replacing production subsidies with a single payment based on farm size, leaving the RPA in need of a new payment system. Officials at the Department for Environment, Food and Rural Affairs (DEFRA), decided to merge the new system with an existing programme of cost-cutting, begun in 2001 and carried out with the help of Accenture, a consultancy.

Chaos followed. The government missed its own payment deadline of December 2005, as well as a later commitment to pay 96% of the outstanding claims by March 2006. As recently as last December, around 500 farmers were still waiting for their money. Suddenly and unexpectedly deprived of a large chunk of their income, many struggled to cope. “This saga has cost farmers £20m of their own money, and untold stress,” says Peter Kendall, head of the National Farmers' Union.

The catalogue of failures will be familiar to anyone who has followed the dolorous saga of British government procurement. Contracts were changed after being signed, communication between DEFRA, the RPA and Accenture was poor, systems were overly complicated and oversight was lax. More unusual is the fact that the MPs are so very cross. “If accountability is to mean anything at all,” they say rather pompously, “then all those responsible for the RPA failure should consider their positions.” One scalp has already been claimed: Johnston McNeill, the RPA's boss, was forced out in March 2006. Others, however, have so far escaped punishment. Margaret Beckett, in charge of DEFRA at the time, is now the foreign secretary; Sir Brian Bender, DEFRA's most senior civil servant, has moved over to the Department for Trade and Industry.

This fuss may seem overdone given the fact that farming now makes up only around 1% of Britain's economy. But the rest of the country may come to rue DEFRA's incompetence. The EU seems likely to fine Britain for its late payments, and the Treasury has set aside £300m to cover it.

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Bagehot

David Cameron scents a change in the wind

Mar 29th 2007
From The Economist print edition

Steve OBrien

Why the terms of political trade are improving for the Tories

A WEEK on from a nasty moment when David Cameron had to reply to a budget by Gordon Brown that looked fleetingly as if the chancellor of the exchequer had slashed income tax, the Tory leader is feeling rather pleased with the way things are going. It is not just that Mr Brown's budget now looks increasingly like a textbook example of how to shoot yourself in the foot (why dress up a perfectly respectable piece of tax simplification as something it was not?). Nor was it the judgment of the first post-budget opinion poll that saw a slide in Mr Brown's ratings as a future prime minister to minus 27. What has most gratified Mr Cameron is his sense that the terms of political trade are moving in his favour.

Nothing has changed Mr Cameron's view that the prime minister-in-waiting is still a formidable operator. But Mr Brown's budget-day performance has further convinced him that for all the chancellor's strategic skills and moral seriousness, he is an old-fashioned sort of politician who practises an out-of-date sort of politics that voters have become heartily sick of.

That is encouraging for Mr Cameron, although there is a feeling in his camp that he and his colleagues may have slightly overdone the attacks on Mr Brown's character. What has given him most heart is the way the budget neutralised “tax and spend” as an electoral issue. For one thing Mr Brown seemed to endorse the Tory view that cuts in the marginal rate of taxation are compatible with high spending. As important, his decision to cap future expenditure rises at 2% a year means in effect that he has signed up to the Conservative formula that the proceeds of growth should be shared between more spending and less taxes.

For whatever reason—either Mr Brown has decided that the electorate has reached the limits of its tax tolerance or he fears that a rising tax burden would dent Britain's international competitiveness—public services rather than taxpayers will take the strain of more straitened fiscal circumstances. At a conference on public-service reform on March 27th, Mr Brown, armed with a PowerPoint slideshow, presented spending plans that would make a hair-shirted Conservative chancellor wince.

While public spending under Mr Brown was ripping ahead by up to 5% a year, even the most modest restraint suggested by the Tories allowed the chancellor to conjure up images of savage cuts in spending on schools and hospitals. That device will now lose its sting. Tax and spend, the dividing line in British politics explicitly chosen by Mr Brown in the last two elections, has, for now, gone away and the Conservatives can breathe more easily as a consequence.

Apart from the inevitable clash of personalities, Mr Cameron believes the next election is likely to be decided on two issues above all. The first is which party is most trusted to run public services. A few years ago it would have seemed inconceivable that the Tories might win on this battleground, but since 2006, when headlines about health-service cash shortages first appeared, it is no longer. This is not because Mr Cameron has much new to offer. Indeed, the Conservative leader says he supports much of what the government is (belatedly) doing. He loves the idea of giving state schools and hospitals a freer hand to run their affairs. If anything, he would like to press ahead in this direction further and faster, although he may yet be surprised by Mr Brown's recently discovered zeal for market-led reforms.

The main difference between Labour and the Conservatives is that Mr Cameron talks constantly about placing more faith in the professionals running public services to innovate and respond to local needs. Labour also talks about “learning from the frontline”, but years of centrally dictated targets and the stress of constant reorganisations have left staff battered and cynical.

The NHS in particular, despite the record sums of money that Labour has lavished on it, is in a state of truculent turmoil. Last weekend saw the largest-ever demonstration by the medical profession when thousands of junior doctors marched in protest against a new online application system for allocating training posts that takes little account of the suitability and experience of candidates. Mr Cameron was cheered when he told the marchers that Patricia Hewitt was “the worst health secretary in the history of the NHS”. He thinks that despite higher pay many NHS professionals have had enough and will not be there for Mr Brown come the next election.

Fair play

The second issue that Mr Cameron hopes will be decisive for him is which party's vision of the state resonates with voters. He believes that when it comes to tackling many of today's social problems, such as broken families, delinquent children and widespread drug addiction, the state has shown itself to be of limited use. Hence his big theme of social responsibility. Among other things, he wants to see a greatly enhanced role for the voluntary sector, in which the state would step back to allow social entrepreneurs the space and resources to do good. It's a nice idea, but he has yet to explain how myriad small organisations will be able to rise to the challenge or how they will account for the extra sums of public money he wants to push their way.

Mr Brown says he is also keen to see the voluntary and not-for-profit sectors do more. But he remains convinced that New Labour's vision of an “enabling state” which offers a helping hand to both the disadvantaged and the aspiring is shared by most of his fellow countrymen. “Only the state”, says Mr Brown pointedly, “can guarantee fairness.”

Mr Cameron would be wise neither to underestimate the deep British attachment to equity, nor the fears of people who know the state improves their lives. He has had a good week and is doing better than he could have hoped six months ago, but “social responsibility” may not be the winner he thinks it is.

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NATO, Europe and missile defences

A few interceptors, a big gap

Mar 29th 2007
From The Economist print edition

Claudio Munoz

Some old sores (and a few new ones, too) have been opened by Europe's muddled reaction to America's missile-defence plans

ON THE face of things, the argument is all about a handful of missiles which, whatever their wider role, will make no difference to the balance of power in Europe. But the deep, multiple fault lines that the row is laying bare—both within the Atlantic alliance, and between the alliance and Russia—seem all too reminiscent of cold-war politics at their dismal worst.

To cut a lengthening story short, America hopes to deploy parts of an anti-ballistic-missile system on the soil of two NATO allies: just ten fairly simple interceptors in Poland, and a radar system, able to track incoming missiles as they hurtle through space, in the Czech Republic. And senior Russians, especially the top brass, are growling in response. They are adamant that the new installations threaten their national security—despite America's insistence that the interceptors are aimed only at stopping the rockets from rogue (potential) nuclear powers like Iran.

Sergei Lavrov, Russia's foreign minister, gave the argument a new twist this week by asserting that shafts used for interceptors could easily be adapted to accommodate offensive weapons. At the same time, indignant Russians add, the new kit is not such a threat that they couldn't deal with it easily. “Since missile-defence elements are weakly protected, all types of our aircraft are capable of applying electronic counter-measures against them or physically destroying them,” declared one general, Igor Khvorov, this month.

The American in charge of building the new shield, General Henry Obering, has painstakingly spelled out reasons why the system's location should be a source of reassurance, not concern, to the Kremlin: the sites on NATO's eastern flank are in the wrong place to stop missiles launched from Russian soil. Moreover, he added this week, France, Germany, Italy and even western Russia are all potential beneficiaries of a system that could, if it works, stop a missile from a pariah state in its tracks.

In any case, Russia's strategic rocket force still comprises hundreds of launchers, and thousands of warheads; its capacity, like that of America, to annihilate any enemy will remain firmly intact. In franker moments—whether in the private comments of officialdom or the public words of President Vladimir Putin—the Russians admit that their firepower is not really threatened.

Nor can Russia claim to have been surprised. American officials reel off at least ten occasions when they discussed the missile-defence project with Russian opposite numbers. Both Robert Gates, the present defence secretary, and his predecessor, Donald Rumsfeld, told their Russian counterparts about the plan; General Obering has given a briefing in Moscow; and there have been two set-piece discussions in the NATO-Russian Council.

But the dishonesty is not all on the Russian side. Take the muddled reaction of politicians in Germany, and the unconvincing efforts by the left-right coalition to present a united front over the issue.

The instinctive reaction of Frank-Walter Steinmeier, Germany's foreign minister and a member of the centre-left Social Democratic Party (SPD), was to rebuke America for “startling” Russia with talk of placing fancy new kit in the neighbourhood. “Because the stationing sites are getting closer to Russia, one should have talked with Russia first,” he chided. The SPD chairman, Kurt Beck, went further. He has called the missile-defence plan a prelude to an arms race, and said: “We don't need new missiles in Europe.”

In a fitting response, perhaps, to an artificial row, Germany's political masters have devised an artificial solution—at least to the internal German dilemma. Chancellor Angela Merkel, a Christian Democrat whose instincts are more Atlanticist than those of her coalition partners, has signalled through a spokesman that she wants to “NATO-ise” the issue of new missile defences.

What does that mean? Not much, in practice—but this ugly word reflects the political fact that to some European ears, the common deliberations, and ultimately common decisions, of NATO have a slightly softer, fuzzier sound than anything done unilaterally by the United States. NATO, after all, is a partnership in which all members, at least formally, have a say.

Others are now jumping aboard the “NATO-ising” bandwagon, including politicians in the Czech Republic, where a poll showed just 31% of voters in favour of the shield. According to the foreign minister, Karel Schwarzenberg, many Czech legislators would find it much easier to support the installation if “it could be included somehow in the NATO system”.

In hard military reality, the new system cannot be included. The radars and interceptors will be built by America, and controlled by America, and deployed by bilateral agreement with the hosts. If people hope for a non-American, or NATO, finger on interceptor buttons, they will be let down. In Berlin earlier this month, General Obering was asked whether his system should be brought into NATO. “I believe this system would complement NATO very nicely,” he replied carefully.

As it happens, NATO has for years been preparing for the more limited option of a theatre missile defence, which could indeed be jointly procured and managed by the alliance. But strategic interceptors, albeit few in number, are another matter: the Pentagon won't share the keys with anyone. This week, a Pentagon official stated, at a congressional hearing, that the need for unanimous decision-making in NATO made it the wrong place to decide how missile defences should be deployed.

Even if it is phoney in parts, the missile-defence row cannot be shrugged off easily. Senior American officials find it dispiriting that Russia has again divided Europe. When Russian generals threatened to attack missile-defence sites in Poland and the Czech Republic, some European politicians fretted that Russia was being “pushed into a corner”, to quote Luxembourg's foreign minister. The fact that Europeans are more protective of Russia than of their newish NATO partners does not bode well for alliance solidarity.

One centre-right German member of parliament, Karl-Theodor zu Guttenberg, said it was “worrisome” that so many German voters, even on the right, proved receptive to Russian arguments. Mr Putin's anti-American speech at a conference in Munich last month seems—as Mr zu Guttenberg puts it—to have been “rather ridiculous, but effective”.

Even among new NATO members where voters are broadly pro-American, affection is wearing thin, and the Iraq war's toxic effect is being felt. Iraq explains why 51% of Poles opposed the missile-defence plan in one recent survey, says Radek Sikorski, an Atlanticist Pole who recently lost his job as defence minister amid a row over how exactly to negotiate with the United States over missile defences.

The Polish government may agree to host interceptors, but parliament could still say no, says Mr Sikorski: “This is blowback from Iraq. We used to take things on trust from the United States in the security field”—but that is no longer the case.

America wants a swift decision from Poland and the Czech Republic, ideally this year, so the first interceptors can be in place in 2011 (though Tony Blair's offer of Britain as an alternative site for interceptor missiles remains on the table). Such assent is not a foregone conclusion.

The missile-defence row has also exposed a second fissure in NATO's ranks, about the very idea of deterrence. The nuclear states, Britain and France, broadly agree that peace is guaranteed by great powers being able to deter threats credibly: hence France's (discreet) support for an American shield.

But in some parts of Europe, America's wish to keep a deterrent capability in the face of new threats is seen as destabilising. Mr Steinmeier asserted this month that peace was “no longer based on military deterrence but on the willingness for co-operation.” Others close to the SPD grassroots are blunter. Rolf Mützenich, an SPD spokesman on disarmament, argues that if missile defence gives a sense of “100% security” to Americans, “that will bring some problems for stability.”

As one NATO hand puts it, the row over missile defences has made plain a broader challenge to America's moral sway over its old allies. Four years after the assault on Iraq, America can sound a warning about threats from rogue states—only to find many European voters would rather hear the opposite message from Russia.

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The murder of Bob Woolmer

Long shadows

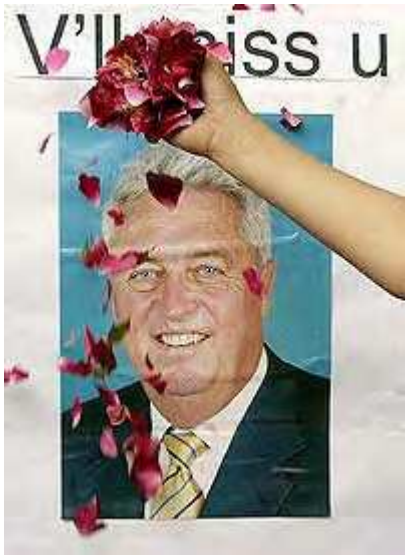
Mar 29th 2007 | LAHORE AND PORT OF SPAIN
From The Economist print edition

Cricket was never just a genteel game—but murder is new

FEW games inspire as many warm feelings—even among those who know nothing about it—as cricket does. Sir John Major, a former prime minister who was not famous for his eloquence, knew he was tugging on safe chords when he predicted that Britain would remain a place of "long shadows on cricket grounds, warm beer, invincible green suburbs [and] dog lovers." And in almost every place where the Union flag has flown, from Greece's Ionian islands to the North-West Frontier, cricket is a more enduring legacy than beverages of any temperature.

But images can mislead. Contrary to its soothing association with creased white trousers, bantering tea-time conversation and almost-holy laws, the game of cricket has witnessed lots of sordid behaviour in its time. Illegal bets, doping, invaded pitches, angry diplomatic incidents—cricket has had them all. Yet there is nothing, in this seedy profusion, to rival the horror felt in Jamaica on March 22nd when it was announced that the coach of Pakistan's team, a 58-year-old Englishman called Bob Woolmer, had been strangled.

Reuters



Pakistan's loss

Four days earlier, Mr Woolmer had been found half-naked and lifeless in his Kingston hotel room. His death followed the biggest trauma of a fine sporting career that included playing for England. Pakistan, a leading power in the world's second-biggest game, had been knocked out of the cricket World Cup by puny Ireland.

The events prompted a flurry of dark rumours. With effigies of Pakistan's losing players aflame back home, where cricket can arouse savage emotion, some speculated that Mr Woolmer had been killed in revenge for his team's failure.

Many more suggested an even murkier motive. In recent years, cricket—especially Pakistani cricket—has been prey to match-fixing linked to bookmakers, typically South Asians operating in Mumbai and Dubai. In the late 1990s this blight led to probes by the International Cricket Council (ICC), the game's governing body, and the banning of a handful of Pakistani, South African and Indian players. They included Hansie Cronje, the South African captain, at a time when Mr Woolmer was coaching that side. Mr Woolmer had a book of memoirs on the way; people wondered which beans he meant to spill.

The state of Mr Woolmer's body left forensic puzzles. Despite few external signs of strangulation, police cited a broken neck-bone and scratches on his neck as clues. One theory is that Mr Woolmer was drugged, then asphyxiated.

But Jamaica's deputy police chief, Mark Shields, one of several British policemen invited to beef up the island's constabulary in recent years, said Mr Woolmer, given his strength, had probably been killed by more than one person. He added that, because there was no sign that the door had been forced, the victim probably knew his killers and had let them into the room.

In fact, access was not all that restricted. In theory, only guests could use the lifts to reach the hotel's upper floors. But it seems that anyone could reach guest floors by taking the lift to a public top floor, before nipping down the fire escape. The police are interviewing, and taking DNA samples from, all the hotel's guests. They also interviewed the Pakistani squad before they left Jamaica on March 25th; some of them were questioned twice. Two members of the retinue were asked why they had switched rooms

away from Mr Woolmer's corridor, around the time of his death. A third was quizzed about a cut on his nose.

Few Jamaican killings are probed so thoroughly. Jamaica suffers ten times as many murders as America, relative to its population, most gang-related. The island has too few forensic pathologists and many cases are held up for years in overstretched coroners' courts, says Carolyn Gomes of Jamaicans for Justice, a pressure-group. And many locals are depressed by the fact that, not for the first time, the mysterious death of a white visitor has propelled the Caribbean onto the world stage.

Anyway, there is no lack of amateur expertise on the Woolmer case. Hundreds of journalists, many from India—which was knocked out last week—are covering the World Cup; most are sure that the reason for the killing was somehow related to match-fixing.

Michael Vaughan, England's captain, is one of many to say the practice still exists. These days the corruption is not thought to involve fixing results, which is difficult, but fixing specific events within games, which need involve only a player or two of the 11 members of a cricket team.

The World Cup is continuing, but badly sullied. That is a hard blow for its West Indian organisers, for whom the event was a chance to lift the islands from the economic and sporting doldrums. In truth, cricket in the West Indies was already becoming an older men's preserve. The young prefer to watch soccer, and get more excited by basketball as a street game. For the ICC, too, talk of match-fixing hurts; it claimed to have curbed the practice. Above all, at least until a killer is named, Pakistan and its cricketers will suffer. One former Pakistani player, Sarfraz Nawaz, has openly linked the murder with the connections that his fellow cricketers allegedly maintain with criminal bookies. Mr Nawaz is a conspiracy-prone type; but Pakistan is a place where conspiracy theories can occasionally prove right.

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Disasters and telecoms

Telecommandos

Mar 29th 2007
From The Economist print edition

You don't have to be big to make a difference

THE lumbering giants of humanitarian relief have been hard at work in recent days, trying to make sure that next time a flood, earthquake or conflict threatens millions of people in a remote, inaccessible place, the response is as swift as possible. In the Italian town of Pisa, the UN World Food Programme (WFP) has organised a boot camp for aid-workers in war or disaster zones, teaching them how to dodge gunfire, avoid kidnappers—and keep in touch with head office. Meanwhile Unicef, the UN children's agency, has summoned a clutch of other organisations to Sweden to discuss ways in which they can improve communication, both literally and metaphorically, in the crucial days after catastrophe strikes.

AP

I'm sorry, I can't get to the phone

But many a rescuer would agree that a tiny non-governmental organisation based in the southern French mountains has done more than any of these vast bureaucracies to solve the problem of providing telecoms after a disaster. The story began in 1991 when Jean-François Casenave, a junior French civil servant, took time off work to help Kurdish refugees fleeing their homes in northern Iraq. He handed over some clothing given by kind people in the French Pyrenees, and tried to work out what the victims really needed.

Both there, and in a later mission to help refugees streaming out of Kosovo, Mr Casenave was overwhelmed by pleas from people who wanted family news, and requests for help, conveyed to relatives elsewhere. He realised that his skills as a communications provider were as badly needed, in emergencies, as those of doctors and engineers. Telecoms were vital both for aid-workers—to co-ordinate helicopter flights and get them to areas of distress—and for the victims, whose hopes of avoiding destitution often depended on finding relatives in safer places.

In its nine years of life, the NGO known as Télécoms Sans Frontières (Telecoms Without Borders) has chalked up nearly 60 missions to disaster zones, including parts of Indonesia wrecked by the 2004 tsunami. But with a dozen full-time staffers it remains minuscule, and reliant on volunteers, from graduates to pensioners. Last October the NGO got a five-year grant of $2m from the UN Foundation—set up by Ted Turner, an American philanthropist—and the Vodafone Foundation, the mobile-telephony firm's charity arm. The money was a down-payment for doing, a bit more formally, the kind of job that TSF already specialised in: acting as an advance guard for big, UN-managed operations.

And TSF was getting along fine, on an annual budget of just $950,000, even before it won its new grant. Last May, when an earthquake struck Java, a French-based TSF staffer and three volunteers reached the disaster zone, complete with laptops, in barely a day. Money isn't everything.

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Reaching for a renaissance

Mar 29th 2007
From The Economist print edition

Reuters

So far the world has come to China, but now a rising China is beginning to reach out to the world, starting with Asia, says Dominic Ziegler (interviewed here). Is that a good thing?

THE China story since Deng Xiaoping opened the country's doors three decades ago has by and large been one of discovery by the outside world. The discovery of cheap land and labour drew in more than $500 billion of foreign money (mainly from Asia) that today drives China's export juggernaut; now foreign firms are crawling over China's domestic market, hard to crack but perhaps lucrative in places. Rather newer is the cultural discovery by the West and by the richer parts of Asia of a certain “China chic”: the lush, epic cinematography of Zhang Yimou; the hyper-hip nightlife of a reborn Shanghai; and the Western infatuation with modern Chinese art, whose prices now leave a cynical smile on many a painter's face.

The world coming to China: the apogee will come when it hosts the Olympics next year in Beijing, a capital now dotted with signature buildings by the most fashionable architects rushing to get finished in time—from the Herzog & de Meuron stadium resembling a bird's nest to a titanium-and-glass opera house (the world's largest, naturally) by Paul Andreu.

But a more potent story that is only just starting to be articulated is that China is going out to the world. Indeed, China is rising—some say has already risen—to become the newest great power. Do not yet think of it as a global one. Even if commercial and diplomatic tentacles stretch increasingly round the world, the main site of China's power, for decades to come, will be in its Asian backyard.

Go back ten years and Chinese officials bristled at the notion of a rising power. They had surviving reserves of insecurity and cherished a historical sense of victimhood. After a long twilight, Deng, the paramount leader, had in February 1997 gone to meet Marx, leaving the Chinese Communist Party with unanswered questions about the stability of the “third-generation” succession, led by President Jiang Zemin. China was to get Hong Kong back in July 1997, yet even as one small territory was coming back, Taiwan, the great unfinished business of China's civil war, threatened to drift away in the direction of independence. China's bullying attempts to stop the drift—it had lobbed missiles into the seas around the island—had met with a show of American force when President Bill Clinton dispatched two aircraft-carrier groups. Hawkish Western circles were debating how best to “contain” China.

In this atmosphere China's ruling establishment—in many areas narrow, prickly and distrustful of the outside world—played down China's power. At the time an assistant foreign minister delivered a stinging

lecture to your correspondent. *The Economist*, he said, was “exaggerating China's economic development, leading people to conclude that the rise of China will inevitably unbalance the region. Such arguments don't hold water. China is not any kind of power. It is not at present. And it will not be one in future.”

Times change. The favourite reading at the moment among a younger, more cosmopolitan generation of Chinese diplomats is “Power Shift”, a collection of essays by mainly American-based academics. Its premise is that the tectonic plates that have defined Asia for the past half-century are moving, and that China is the chief agent of change as it resumes its historical role as Asia's central actor. Gone, largely, are China's fears of encirclement. “Impossible!” a senior Chinese diplomat laughs. “China is now far too powerful to be contained.” One of Deng Xiaoping's tenets—that the country should, as a Chinese saying has it, disguise its ambition and hide its claws—seems to have been buried.

But what kind of power is China becoming? Some Western hawks find it unsettling that this is even being debated within China, but it is better to talk about it than not.

Only once a decade or so does a piece of television programming break through the variety shows and the propaganda to capture China's attention. A hugely popular 12-part series on China Central Television has just done so, showing how nine countries rose to prominence, beginning with Portugal in the 15th century and ending with the United States in the 20th. The conclusion, as befits state television, delivers an explicit political message, but one that may surprise outsiders. In finding plenty of lessons to learn from, the series attaches greater importance to social stability and peaceful foreign relations than to jingoism and brute military strength.

Indeed, a propos of the television series, the same senior Chinese diplomat mentioned earlier argued energetically that pacifist Japan's post-war rise was a model of good-neighbourliness that China itself could usefully emulate. That is intriguing. Much of the present bad blood between China and Japan has to do with China's constant harping on Japan's brutal deeds in the first half of the 20th century while glossing over its positive regional influence in the second half.

In a forthcoming book about China, David Lampton of the School of Advanced International Studies at Johns Hopkins University argues that nations define and achieve their goals using three means: coercion, material inducement or intellectual motivation. Put more bluntly, that means guns, money and ideas. How China blends the three, and how the rest of the world perceives the process, will more than anything shape the future course of Asia and beyond.

Velvet glove or mailed fist?

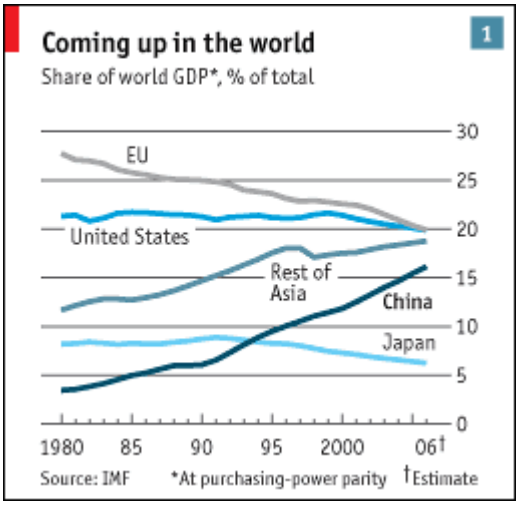
America, more than most countries, sees Chinese power as coercive. In late February Vice-President Dick Cheney on a visit to Australia became the most senior administration official to express grave concern about China's military build-up. The military budget has been growing at double-digit rates for years, with an 18% rise planned for this year. The People's Liberation Army is coy in the extreme about its capabilities and intentions, but in January a missile had been sent into space to destroy an old weather satellite. China' s military policies, Mr Cheney said, were at odds with the country's stated peaceful aims—suggesting perhaps that he did not really believe in those aims.

For now, though, it is clear that President Hu Jintao and the rest of the Chinese “fourth-generation” leadership are seeking to soothe neighbours—even Taiwan—by emphasising money and ideas over guns. As the next article will explain, this policy has had a transformational effect on China's relations in much of Asia, mostly for the better.

Yet suspicions remain. Mr Hu may have embraced the notion of China's “peaceful rise”, first advanced by Chinese academics in 2003, yet even the phrase itself is unsettling. As Lee Kuan Yew, Singapore's former prime minister and now its “minister mentor”, puts it: “‘Peaceful rise' is a contradiction in terms. I told China's leaders that. I said: ‘Why not call it a renaissance, a return to a golden age when poetry, painting, clothes, music and drama flourished?'”

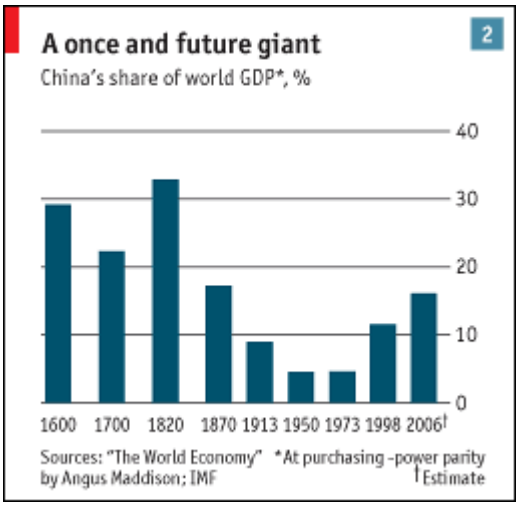
China's economic rise is certainly impressive. The economy's growth—an average of 10% a year since 1990—is not really more remarkable than the earlier rise of other Asian economies, led by Japan, but there is a difference: the huge size of China's population, at 1.3 billion. In 2005 China overtook Japan in the

volume of trade it conducts. Depending on how you measure size and guess at future growth rates, it may overtake both Germany and Japan within 15 years to become the world's second-biggest economy. Measured at purchasing-power parity, China's share of the world economy is already much closer to the rich countries' (see chart 1). But bear in mind that the average Chinese income remains low. If China is on its way to becoming a superpower, it will be the world's poorest one yet.



Opinion polls suggest that the vast majority of Chinese see their rise as nothing that should trouble others. For many of them it merely marks a return to historical norms. Angus Maddison, an economic historian at the University of Groningen, has estimated that between 1600 and the early 19th century China accounted for between a quarter and a third of global output (see chart 2). At that time China's agriculture was more advanced than the West's, its cities bigger and more literate and its ruling classes more meritocratic. The country had also proved itself capable of long-distance exploration by sea. Another historian, Niall Ferguson, reckons that what went so spectacularly wrong for China then is more remarkable and worthy of investigation than why things should now be going right.

But what is the nature of China's rising economic power now? There is room for misperceptions. Policymakers in Washington, DC, are alarmed by China's export strength and its ballooning trade surplus. China is lambasted for having mercantilist policies that artificially boost exports, depress the Chinese currency, restrict imports and widen America's trade and current-account deficits.



In several respects that view is wrong. With a trade-to-GDP ratio of around 70% and a sea of foreign investment, China is one of the world's most open economies. Much of the growth in America's bilateral deficit with China reflects a shift in low-cost manufacturing from other parts of Asia to the Chinese mainland. Certainly China's currency is undervalued, having followed the dollar down since 2002. But that is reinforcing inflationary pressures, particularly in wages, so China's advantage as always the lowest-cost producer can no longer be taken for granted.

America's emphasis on exports misses the point about China's economic power. That power comes not so much from being a seller of things but increasingly from being a buyer, an investor and a provider of aid, in Asia and beyond. One Chinese diplomat puts it thus: “Imports: that's real diplomacy, because it means you're attractive to others. It means other countries need you, not that you need them.” This subtle understanding sets China in stark contrast to how Japan viewed the world during its post-war rise.

With this new kind of power, the economic and geopolitical sides are ever more intertwined. China's presence as a commercial force is rapidly being felt around the world, through its growing investments overseas and through an apparently insatiable hunger for resources to fuel the industrial revolution at home. The shock troops of this force are there to see in China's main airports: planeloads of oil-drillers, pipe-layers and construction workers, in company overalls and hard hats, off to work on oil rigs or build ports, highways or railways in South-East Asia, Africa, Latin America or the Middle East. Chinese workers are also moving into other countries in less formal ways. In the northern birch forests of Mongolia, unofficial groups of them are cutting down trees for chopsticks. In poor northern Laos, thousands of Chinese labourers have come across from neighbouring Yunnan to grow corn and sugarcane for export back to China; traditional slash-and-burn agriculture is giving way to polytunnels and large-scale market gardening.

This is not the first time that mainland Chinese have fanned out to work the world's natural riches. In the 19th century hundreds of thousands of coolies—indentured workers lured by Chinese and Western recruiters using a greater or lesser degree of deception—toiled in some of the world's worst hellholes: the guano deposits of Peru, the canebrakes of Cuba or the gold mines of South Africa. Now the Chinese are back in some of the same parts of the world. The difference this time is that Chinese capital, usually state-owned, stands behind them.

Trying to charm

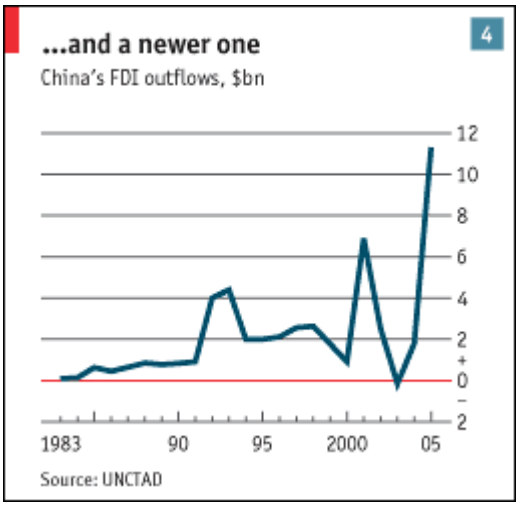
One of the advantages of state-led development is that China can entice countries with packages of corporate investment, cheap loans and other aid goodies. This way China has rapidly acquired interests and influence across swathes of South-East Asia, Africa and Central Asia. China's outward foreign direct investment more than quintupled in the first half of the decade, to $11.3 billion in 2005, and will have risen sharply since. Once a big aid recipient, China hosted a summit of 48 African leaders in Beijing last November, promising $5.5 billion in aid for Africa. According to a recent report by the Institute for Public Policy Research in London, China has become Africa's third-biggest trading partner after America and France.

China is also increasingly investing in the rich world. To some Americans, in particular, this is distasteful. In 2005, citing national-security concerns, Congress succeeded in thwarting the $19 billion bid by China National Offshore Oil Corporation (CNOOC) for Unocal, an American oil major with reserves in Asia. Competing resource companies from the West often claim that Chinese companies outbid them in third markets, using cheap, state-subsidised funds. Yet in growing numbers of countries, rich and poor, the Chinese presence is welcomed for bringing jobs, cash and infrastructure.

Australia has received more Chinese investment than most Western countries, much of it in mining. It is criticised in America and Europe for cosying up to a dictatorship. “We're also strong on the human-rights front,” an Australian diplomat says in defence. “But there's stuff to be done in the meantime.” When a senior Canadian official is asked what conclusions Chinese resource companies should draw from CNOOC's experience, he replies instantly: “Come to Canada.”

China's rise is a global phenomenon, but the rest of this special report will concentrate on its relations with Asia. After all, the region is on its doorstep. “If we can't get respect in Asia,” says a Chinese policymaker, “we can't get on in the world. If we can't have a peaceful and prosperous backyard, then there can't be any rise of China.”

In vying for influence in Asia, China has many competitors. They include India, rising in its idiosyncratic way; Japan, seeking a more robust foreign policy in the face of China's rise; Russia, a resource giant, even if a diplomatic minnow in Asia; the ten countries that make up the Association of South-East Asian Nations (ASEAN); and—still the top dog even if distracted in the Middle East—America.



It is in Asia that America risks falling prey to a final misperception. As Mr Lampton points out, just as Americans overstate China's export prowess as a source of economic power, so they underestimate China's intellectual, cultural and diplomatic influence. If policymakers view China's power “in substantially coercive terms when it is actually growing most rapidly in the economic and intellectual domains,” he writes, “they will be playing the wrong game, on the wrong field, with the wrong team.”

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Smile diplomacy

Mar 29th 2007
From The Economist print edition

Working magic along China's periphery

THE Chinese government calls it—pick your phrase—a “harmonised world” or a “new security concept”, but Shi Yinhong of the People's University in Beijing expresses it more felicitously: “smile diplomacy”. Whatever it is called, the calculus behind it is simple, if not usually spelt out. Without encouraging peace and prosperity around China's long borders there will be no peace and prosperity at home. And without peaceful development at home the Chinese Communist Party is toast. This calculus has become increasingly important over the past decade and may well apply for decades more yet.

China's smile diplomacy would have had fewer chances of working without the economic forces of globalisation drawing much of East and South-East Asia closer to it (see article). All the same, the transformation is astonishing. Just two decades ago China had no diplomatic relations with South Korea, Singapore and Indonesia, among others. On the Korean peninsula, the government in Seoul eyed China warily for being North Korea's chief backer. In South-East Asia suspicions of China ran high, thanks in big part to attempts under Mao Zedong to export leftist revolution and stir up overseas Chinese communities against their rulers. As for Vietnam, which for much of its history was a vassal of China, it was still smarting from a border war in 1979 launched (with American blessing) to “teach Vietnam a lesson” for unseating the genocidal (China-backed) Khmer Rouge regime next door in Cambodia. Towards Japan, China used a sense of victimhood to play upon Japanese war guilt in order to extract more aid from its rich neighbour.

Relations with the Soviet Union were only just starting to thaw after a long falling-out between the two former allies that had included border skirmishes along the Amur in 1973; at the peak, 1.5m troops were ranged along both sides of the 7,000-kilometre (4,400-mile) border. In the Himalayas, tensions had recently risen again in China's border dispute with India which in 1962 had spawned a high-altitude war.

As well as border disputes on land, China pursued maritime and island claims with Japan, and also laid claim to a great swathe of the South China Sea stretching down almost to the coast of Borneo. That set it against rival claimants to some or all of it: Vietnam, Malaysia, the Philippines and Brunei, as well as Taiwan. As recently as 1995, China alarmed its neighbours when its armed forces occupied one of the larger specks of rock, aptly named Mischief Reef, that formed part of the Spratly Islands (around which large oil deposits are reckoned to lie). China has occupied the Paracel Islands, disputed with Vietnam, since a bloody skirmish in 1974.

Mutual engagement

Yet now China has applied balm to old sores, particularly in South-East Asia. Perhaps, as David Shambaugh argues in “Power Shift”, the opening came after the Tiananmen Square massacre in 1989, when Asian neighbours (except, partly, Japan) failed to join the rest of the world in ostracising China. Instead, though critical of the regime in Beijing, Singapore's then prime minister, Lee Kuan Yew, led a South-East Asian push to engage China.

As Chinese diplomats tell it, the Asian financial crisis of 1997-98 was a watershed. Around Asia, currencies and stockmarkets were buckling as foreign and domestic capital fled. The crisis threatened to spread to China. Yet if China devalued, a further round of competitive devaluations across Asia would redouble the turmoil.

China had every reason not to want a devaluation, which would have imperilled a dire banking system and might even have brought down China's autocracy. The regime also had the means easily to resist one. By standing firm, then, it was doing itself a favour. But that action, and the aid and loans that China offered to other countries, helped ease the crisis. China developed a taste for getting respect.

Ties with South-East Asia have swiftly evolved since. Indeed, many of the understandings that have governed relations among the ten members of ASEAN—in particular, non-interference in each other's affairs—are dear to China's heart. In its dealings with ASEAN, the key events came earlier this decade. China undertook formally to settle its territorial disputes with ASEAN members not by force but through collective mechanisms for conflict resolution. And it became the first non-member to sign up to ASEAN's Treaty of Amity and Co-operation, an undertaking never to use force against its members for any reason. (India, South Korea, Japan and Pakistan have since also signed.) Thus the risk of hostilities in the South China Sea, which in the 1990s was seen as a spark for a broader conflagration, has greatly receded.

Lastly, China boldly proposed a China-ASEAN free-trade area (FTA), which was agreed on in 2002 and will be implemented in stages (with safeguards for ASEAN's poorer members) up to 2015. The deal has done much to reassure South-East Asia that China's rise will not come at the expense of the region's prosperity.

In the mid-1990s China moved to ease tensions with its land neighbours. The “Shanghai Five” grouping with the former Soviet Union countries that share borders with China—Russia, Kazakhstan, Kyrgyzstan and Tajikistan—was formed to resolve remaining border issues, reduce military tensions and build confidence. In 2001 the grouping became the Shanghai Co-operation Organisation (SCO), which Uzbekistan also joined.

In South Asia, an unprecedented development in recent years has been huge Chinese road and rail projects that will eventually link the country's remote western regions with the Arabian Sea (at the Pakistani port of Gwadar) and its south-western regions with the Bay of Bengal, via Myanmar. Ever closer strategic (and military) co-operation between China and Pakistan, you would expect, might alarm India. Yet relations between India and China have warmed. Annual trade is now worth $25 billion—still modest, but a big leap in recent years. India's nuclear test in 1998 angered the Chinese; some Indian politicians had suggested that the nuclear deterrent had been developed with China in mind. However, since the visit to Beijing in 2003 of India's then prime minister, Atal Behari Vajpayee, relations have been on a more cordial footing.

There is even some prospect of resolving what is almost China's last remaining—and massive—border dispute (one with tiny Bhutan also remains). India appears to have concluded that better relations with China will act as a constraint on China's support for Pakistan, India's old foe. The strengthening of a growing strategic partnership between India and the United States might also further push China towards co-operation with India.

Ties that bind

Through its dealings with neighbours, China has been drawn into a cat's cradle of regional and sub-regional co-operation. It has shed its deeply held reluctance to get involved in multilateral groupings. Indeed, Hu Jintao, the president, Wen Jiabao, the prime minister, and other leaders seem at times to be doing an interminable round of summit meetings, including ASEAN plus one (ie, ASEAN and China), ASEAN plus three (China, Japan and South Korea) and the Asia-Pacific Economic Co-operation (APEC, the only trade forum embracing both sides of the Pacific). On sunny Hainan island, China itself hosts the Boao Forum, which it wants to become an Asian version of the Davos World Economic Forum. And some policymakers in Beijing even want to turn the six-party talks hosted by China (with the United States, South Korea, North Korea, Japan and Russia) launched in 2003 to get North Korea to dismantle its nuclear weapons into a broader north-east Asian security forum.

Other groupings are gaining heft. In particular, the ASEAN Regional Forum, with more than two dozen participants (including the United States and the European Union) has become the principal platform for discussing security issues in the Asia-Pacific region. The SCO has evolved to embrace issues such as drug-smuggling, energy and now economic co-operation in Central Asia. Zhou Li, director-general of European and Central Asian affairs at China's foreign ministry, says there is a possibility that India, Mongolia and others will be invited to join. But fighting what China calls “terrorism, separatism and extremism” remains a central purpose of the SCO. Ethnic Uighurs from western Xinjiang province have long chafed at Chinese rule, and many have fled to Central Asian states.

For China, the broader advantages of engagement are becoming ever more obvious. Relatively stable relations with its neighbours act as protection against volatility in relations with the United States—particularly as that superpower is absent from many of the groupings. China's stock and influence is undeniably on the rise. In January, at the second East Asian Summit of 16 Asian nations held in the Philippines, the country's president, Gloria Macapagal Arroyo, declared, without any Orwellian irony: “We are happy to have China as our big brother.”

Yet whereas Chinese policymakers see these growing webs of interdependency as a way to ease their country's rise, some neighbours see them also as a constraint on the giant among them. “Despite a wariness of China, which has its roots in the past,” says Rodolfo Severino, a former Philippine foreign minister and secretary-general of ASEAN, “South-East Asia's only choice has been to engage China. Its rapid economic advances awe people, who see this big presence in their midst. Yet this argues for viewing China not with concern but with a sense of caution. And if you ask whether the process of engagement has had the effect of ‘socialising' China, the answer is certainly yes.”

Smile diplomacy, then, is working, but not everywhere. Later, this special report will look at north-east Asia (see article), where a divided Korean peninsula, historical and territorial tensions between China and Japan and the uncertain future of Taiwan suggest that the cold war simmers on.

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History wars

Mar 29th 2007
From The Economist print edition

Imaginechina

Koguryo's bones of contention

Whose stele is it?

PUSHING up through the late-winter snows on a hill above Manchuria's Tumen river are scatterings of old burial mounds. For centuries these tombs and others like them attracted little attention. Now they are at the heart of a bitter international tussle that has, for once, united North and South Korea against China.

The tombs are the work of the Koguryo kingdom (Gaogouli in Chinese) that flourished between 37BC and 668AD. At its height, Koguryo territory stretched all the way from central Manchuria (north-east China) to south of present-day Seoul. At Koguryo's former capital, near Ji'an in China's Jilin province, a magnificent stele praises the deeds of a fifth-century king.

For every Korean schoolchild, Koguryo was one of Korea's three founding kingdoms. At the heart of the kingdom, Mount Paektu, which today spans the Chinese border with North Korea, is considered to be the fount of Korean culture and myth: indeed, Kim Jong Il's official biography insists that the North Korean leader was born on its slopes.

Even a short stay in South Korea impresses on the visitor that the matter of Korea's bloodlines is not to be messed with. Yet in 2002 Beijing's Centre for the Study of Borderland History and Geography launched a project that reinforces what a growing number of Chinese historians have been "scientifically" insisting, despite sparse archaeological evidence: that the Koguryo kingdom shared its lineage and culture with the Chinese, and was eventually absorbed into the Chinese body politic. Koguryo, in short, was not Korean but Chinese.

South Korean historians have taken to the streets, demonstrating against Chinese ones. South and North Korea tried to block Chinese attempts to have Koguryo monuments (as well as Mount Paektu) listed by UNESCO as a world heritage site. The South Korean government has challenged the legitimacy of the 1909 Kando convention in which imperial Japan, which had just annexed Korea, gave China a chunk of Korean Manchuria in return for concessions. This year, at the winter Asian games in north-east China, South Korean skaters held up signs which read: "Mount Paektu is our territory." China wants to hold the 2018 winter Olympic games on its slopes.

In February the South Korean government said it planned to revise high-school books to trace Korea's ancient history back by 1,000 years more than hitherto. The Kojoson kingdom, the new books say, began in 2333BC, deftly outmanoeuvring China's claims on the younger Koguryo, which covers much of the same territory. Never mind the spurious precision of the date, or the statement that "Kojoson was established by Tangun," a mythical demi-god.

China's version of the past has everything to do with its present territory and borders. In *Japan Focus*, an online journal, Yonson Ahn of the University of Leipzig calls it China's "territorialisation of history". But

why should it suddenly matter so much now, in this bleak corner of the country? For the answer, look to North Korea. Should the regime of Kim Jong Il collapse and the two Koreas be unified, then China's own 2.2m ethnic Koreans might agitate to come into the fold—and other supposedly happy “minority nationalities”, such as Tibetans and Uighurs, might also get fidgety.

When your correspondent asked his ethnic Korean guide to the tombs which country he loved, the answer was quick and unequivocal: “China, of course! That is where I was born.” When asked which country his home town should be in if the peninsula were ever to be united, the answer was equally firm: Korea.

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The export juggernaut

Mar 29th 2007
From The Economist print edition

Good for China, but good for its neighbours too

Reuters

Mulling a new export model

WHEN China joined the World Trade Organisation (WTO) in 2001, many developing neighbours felt more than a twinge of discomfort. With China already an export juggernaut, they feared that the dismantling of tariff and other barriers that went with WTO membership would make the country irresistible to manufacturers, diverting foreign direct investment that might otherwise have gone to them.

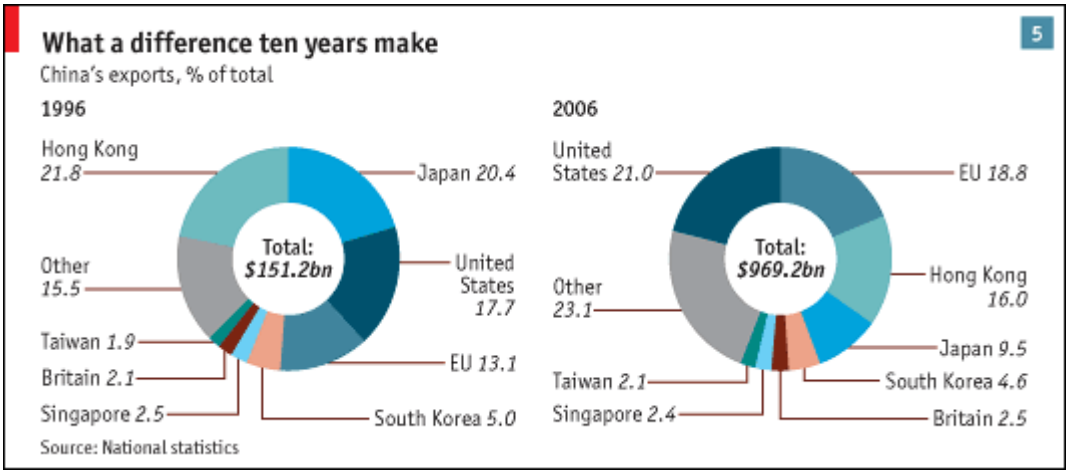
This appears not to have happened. Certainly, foreign investment in China has increased, as have China's already heady exports, which since 2003 have been growing at their fastest pace since the early 1990s. In 2004 China overtook Japan to become the world's third-largest exporter, behind America and Germany.

But foreign investment has grown elsewhere too. The ten ASEAN countries saw a record $37 billion of investment in 2005. For some manufacturers, South-East Asia (or India) serves as a hedge against something going wrong in their China operations—be it social unrest, economic problems or a business climate that turns against foreign investment.

But much investment outside China is in fact contingent on the China boom. So supercharged has the Chinese export machine become that it has sucked in vast quantities of parts and components for final assembly from other parts of Asia—Thailand, Malaysia, Singapore, the Philippines and Indonesia, as well as richer Taiwan and South Korea. The effect of WTO membership, in other words, has been to bind China more tightly into existing and highly sophisticated pan-Asian production networks, a task greatly facilitated by the internet. Everybody has benefited, even rich Japan, which in 2002-03 was pulled out of a decade and a half's slump by Chinese demand for top-notch components and capital goods. South-East Asia has got a further boost: rich in resources, including rubber, crude oil, palm oil and natural gas, it looks likely to profit from China's appetite for raw materials for a long time to come.

Trade within East Asia has grown even faster than the region's trade with the rest of the world, suggesting deeper specialisation and integration. But China's impetus has also profoundly altered the course of trade flows in Asia. As a paper last year by the Centre d'Etudes Prospectives et d'Informations Internationales (CEPII) in Paris describes, the China effect over the past decade or more has been the driving force behind a shift in Japan from exporting finished goods to Europe and North America towards exporting parts and components for assembly on the mainland. In turn, Japan now imports finished goods (such as office machines and computers) from China where previously they came from America and Europe.

For South Korea, Taiwan, Hong Kong and Singapore, trade has also turned from the rich world towards China. For Hong Kong, Taiwan and this year probably even Japan, China is the biggest trading partner.



In China, according to the CEPII paper, the processing and assembly of imported parts and components now accounts for more than half of all exports. China's growing trade surplus, it argues, is explained entirely by this kind of assembly. William Fung, managing director of Li & Fung, a Hong Kong company that leads the field in finding suppliers and managing supply chains for Western retailers and brands, uses a talking toy as an example: the plush fabric was made in Korea and the voice chip in Taiwan, and the final assembly was done in Shanghai.

Toys are mostly relatively simple things. But China has recently recorded phenomenal growth in exports of high-tech products too, principally notebook and desktop computers, DVD players, mobile phones and the like. Nicholas Lardy of the Institute for International Economics notes in a new book, “China: the Balance Sheet”, that between 1998 and 2004 American imports of Chinese laptops jumped from $5m to $7.7 billion and display units from $860,000 to $4.9 billion. Some now ask whether China is vaulting up the technology ladder or even threatening American national security. These concerns are grossly overblown.

A recent edition of the *China Economic Quarterly* (CEQ) looked at the top exporters among foreign companies that had set up in China. In 2004 eight of the top ten were Taiwanese electronics companies—known as original design manufacturers (ODMs)—to which the world's top computer brands, such as Dell, Apple and HP, outsource their production and, increasingly, much of their design and innovation. At the start of this decade less than 5% of these firms' laptop production was on the mainland. Since 2001, when the Taiwanese government lifted restrictions preventing laptop-makers from investing in China, they have shifted virtually all of their production there. Thanks to much lower labour and land costs, each machine costs $20-30 less to make.

A surge in high-tech exports (in 2005, telecoms equipment, electronics and computers accounted for 43% of China's exports by value) might look like a leap up the value chain. Yet assembling many “high-tech” products is not that different from making Mr Fung's talking toy. Mr Lardy argues that a better label might be “mass-market commodities”: after all, the laptops are simply assembled from foreign components. As CEQ points out, most of the firms involved are foreign, accounting for three-fifths of all Chinese exports, four-fifths of exports assembled from imported parts and components and nearly nine-tenths of the high-tech stuff. China's export model, then, still consists in big measure of renting out cheap labour and land to foreigners. Even China's most successful domestic computer firm, Lenovo, which acquired IBM's personal-computer business in 2004, contracts its production out to Taiwanese companies.

Yet the model may already be changing. Home-grown exporters, especially privately owned ones, are honing their skills in China's cut-throat markets. Huawei, a telecoms company, already supplies handsets to Vodafone, the world's biggest mobile operator. Bo Xilai, China's commerce minister, promises vigorous support for his country's native car industry, which has leapt from nowhere to capture a quarter of the domestic market and is now poised to start exporting small, cheap cars.

Not the bargain it was

The next question is whether more of the foreign-owned production networks that currently span Asia will be moved to China. There is some anecdotal evidence that this is happening, though statisticians cannot yet put their fingers on it.

A more identifiable trend is working in the opposite direction. As the World Bank's country director for China, David Dollar, points out, wages in China are now rising two or three times faster than in other low-wage Asian economies, and companies are having problems keeping talented staff. Encouraged by the government, companies are moving further inland to take advantage of cheaper labour. Yet the further inland they go, the less skilled the employees and the higher the transport costs to market.

Along China's eastern seaboard, where most of the manufacturing for export takes place, total monthly pay averages $250-350. Some parts of Thailand have higher average wages in manufacturing, but elsewhere in that country, as well as in the Philippines and Indonesia, manufacturing wages are $100-200 a month. Two decades ago all export-sector wages in these countries were higher than in China.

So some argue that in many sectors the era of the "China price"—exporters being able to offer the world's cheapest goods—will soon have run its course. CEPII highlights how the terms of trade have worked against China. Between 1995 and 2004, it finds, China's export prices rose by 4% whereas imports rose by 38%, a total deterioration in China's terms of trade of 24% (see chart 6). Today exporters enjoy more of the benefit of an undervalued renminbi. Yet as CEQ points out, brow-beating by an American government concerned about its bilateral trade deficit with China suggests that the exchange rate is likely to rise in future. It has already gone up by 6% since 2005.

Yet even for some of the cheapest goods, productivity increases have more than offset a deterioration in the terms of trade. A new paper by staff at America's Federal Reserve points out that between 1989 and 2005 China increased its share of exports to America in 41 industries, among them clothing and shoes. It is too early to write off China's export machine, even at the cheap end.

Either way, the consequences for China's neighbours depend on whereabouts on the manufacturing ladder they are. For those increasingly competing with China, the challenge is to make their manufacturing more sophisticated or their design more specialised. Last year America's Intel greatly expanded its research facilities in Malaysia that design microprocessors, motherboards and chipsets. A number of high-tech firms, particularly Japanese ones, are wary of putting such centres in China, fearing that their best design work will get pirated. But for countries such as Taiwan that are losing their manufacturing to China, the emphasis should be on fostering competition in the service industries that now account for the bulk of the economy. Hong Deshang of the Taiwan Institute for Economic Research says that his country's future should be in research and development, design, branding, financing and logistics.

For poorer countries, says Mr Dollar, China's rise opens up opportunities. Vietnam, which recently joined the WTO, is already a beneficiary, with annual growth accelerating to nearly 8%; on the plain between Hanoi and the coast, South Korean and Japanese assembly plants are springing up among the paddy fields to take advantage of the country's low wages. Extraordinarily cheap jeans recently sold by Tesco, Britain's biggest supermarket chain, were made from Chinese fabric stitched together in Bangladesh. Yet in much of developing Asia the starting point needs to be to make up for past omissions: opening up to trade, creating a favourable climate for investment and ensuring an adequate infrastructure for manufacturing. Mr Dollar argues that success will be determined more at the local than at the national level. After all, China's industrial revolution nearly 30 years ago began in a small handful of experimenting cities.

Consumers galore

Moreover, China's exports have to be put in context. Though very open to trade, China's economy, like America's, is essentially driven by its own huge domestic demand. This demand is now growing at a clip of 9% a year and starting to act as a regional engine of growth, sucking in imports. The World Bank forecasts that this will be the first year in which China's imports will be growing by more than America's, becoming the biggest source of import growth in the world. Goldman Sachs, an investment bank, reckons that China's imports for domestic use are now roughly the same as those used in assembling exports, whereas five years ago they were only half as big. Much of what is imported is in the form of raw materials—oil, copper, gas, timber—to feed the China boom. The next article will look at the

environmental implications of that boom.

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Grim tales

Mar 29th 2007
From The Economist print edition

The more growth, the more damage to the environment

Imaginechina

A dark mountain of worries

“THESE days,” says Pan Yue, China's deputy minister for the environment, “most Chinese missions go abroad to talk about securing energy, whereas most foreign missions come to China to talk about our environmental impact. It's a paradoxical diplomacy.”

For China's neighbours, the country poses an environmental threat on several levels. In late 2005 an explosion at a chemical plant in north-eastern Jilin province sent a slick of toxic benzene 80km long into the Songhua River. Local authorities attempted a cover-up, but the city of Harbin was forced to shut down its water supply. With Russia downstream, the spill became an international incident.

In South-East Asia, China's plan to double hydropower by 2010 is causing concern. Several large rivers that run through the region—the Salween, the Irrawaddy and the Mekong, among others—have their source in Tibet, and dams in China already diminish their flow. In India, policymakers and environmentalists are alarmed at reported plans by China to build a dam and divert the upper reaches of the Brahmaputra to dry parts of north-western China, though a Chinese specialist on South Asia says that engineers consider the plan unfeasible.

As for airborne troubles, South Korea and Japan both suffer from sandstorms exacerbated by desertification in China. The country is also the world's biggest emitter of sulphur dioxide. The resulting acid rain is damaging Korean and Japanese forests. Even Japanese fishermen are affected by China's pollution: giant Nomura's jellyfish, which spawn off the Chinese coast before drifting towards northern Japan, spoil catches of salmon and yellowtail and break nets and gear. Some of the recent huge increase in their numbers is thought to have been caused by nutrient-rich run-off (on which the larvae feed) from farms and industry in China.

Even when China takes steps to deal with environmental challenges, neighbours can feel unintended consequences. In 1998 the then prime minister, Zhu Rongji, imposed a total logging ban after floods in southern China that had been exacerbated by deforestation. The ban has been remarkably well enforced and forest cover in China is increasing, albeit of a monoculture of Chinese red pine rather than of mixed native species. Yet with Chinese demand for timber unmet, one outcome of the ban has been increased forest destruction in West Africa, Indonesia, Papua New Guinea, Myanmar, Laos and Cambodia (see article).

Bye, bye bicycle

The rate at which China uses up natural resources is simply not sustainable. Start with its oil consumption. Domestic crude production is rising only slowly, so imports are growing by more than 30% a year. China is already the world's second-biggest oil importer, behind America. There is little prospect of slowing the growth in China's oil consumption, because the government is committed to a car-led policy of development. The World Bank's Mr Dollar has recently described this as “a very questionable development choice”—though it had earlier been conceived with the World Bank's backing.

Already the idea of China as a nation of cyclists seems quaint. Some 45,000km of expressways have been built or are under construction. Through cheap petrol and other means, the government is supporting a domestic car industry, which it sees as an engine of future economic growth. The number of cars in China has leapt from just 4m in 2000 to 19m in 2005. That translates into eight cars per 1,000 people, compared with 500 cars per 1,000 in America. Goldman Sachs thinks the figure will more than double by 2010 and reach over 130m by 2020. But even then China will still be way below American levels of car ownership today.

Oil is only part of the picture. China is the world's biggest producer of coal (as well as of coal-mining fatalities), digging out 2.2 billion tonnes in 2005. Today coal accounts for four-fifths of China's energy use, and there is enough for at least another century.

It is both a blessing and a curse. China is breaking new ground liquefying coal to make oil substitutes, which may in the long run help change its energy mix. Yet abundant use of coal means that China will overtake the United States as the world's biggest producer of carbon emissions by 2009. Its current share is 17% of the world's total, against America's 22%. Last year alone China added the equivalent of California's entire current generating capacity, nine-tenths of it coal-fired.

Unsurprisingly, coal is also the main (though certainly not the only) source of air pollution. Twenty of the world's 30 most polluted cities are in China. According to a new book by the World Bank, “Dancing with Giants: China, India and the Global Economy”, air pollution is causing 427,000 extra deaths a year.

It is possible to find a few glimmers in the murk. Because energy demand is growing so fast, China has more incentive than countries with slow growth to adopt new technologies. It is already the world's largest user of alternative energies, including windpower.

With World Bank support, China has been trying since 2003 to cut its emissions of greenhouse gases through a mechanism set up under the Kyoto protocol. Companies from signatory nations are committed to capping their greenhouse-gas emissions. If they want to exceed their quota for emissions, they can buy carbon “credits” from companies in developing countries that have invested in cutting their own emissions. China has lots of emissions of carbon dioxide and other more noxious gases, and now accounts for three-quarters of all carbon credits traded under Kyoto's clean development mechanism for developing countries.

One reason for hope is that China's leaders appear to understand the scale of the environmental problem. In the government's latest five-year plan, which runs to 2010, it committed itself to increasing forest cover, cutting the discharge of the main pollutants and reducing China's energy intensity (the amount of energy consumed for every unit of GDP) by 20%. Energy intensity fell between 1990 and 2003, but has since risen sharply as heavy industries such as steel and cement have surged.

On the other hand, environmental regulators, by Mr Pan's own admission, are weak and divided. At the State Environmental Protection Administration, he cannot even appoint staff at the provincial level. That is up to the provincial governor, who is usually more interested in growth than in the environment. The true cost of China's environmental mess is hard to assess, but the official government figure, which puts it at about 3% of GDP, is certainly a gross underestimate.

Mr Pan thinks growth should be sacrificed for resource conservation and environmental protection. That sets him sharply at odds with the Communist leadership. “People talk about the peaceful rise of China,” he says, “with all that implies for continuing rates of growth and resource utilisation. But the earth cannot support it. China should control its growth and slow down its development, and the international community should do everything it can to support China if it does.” China's leaders know the calculations. But they are not in a hurry to sacrifice growth and thereby risk social unrest.

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Can we help you?

Mar 29th 2007
From The Economist print edition

How China is wooing a poor neighbour

THE quick way to Krang Skear forest in Cambodia that the Chinese are logging is to turn off the highway in Kampong Chhnang province, a few hours north of Phnom Penh, bump along a sandy track for 25km and, just as the track peters out, take the train through the scrub for the last 30km. Or, rather, as the railway built by the colonial French was abandoned years ago, you ride a dolly improvised from a few planks and an old petrol engine, taking the whole affair apart and to one side every time you meet a similar contraption coming the other way.

The area is as poor as it gets even in Cambodia, where more than one-third of the population lives on less than 60 cents a day. It is dry and dusty, with infertile soil, and the summer rains run away too fast for a decent crop of rice. Most of the local families, living in raised single-room thatched huts without electricity, grow cashew nuts, bananas and corn for a meagre subsistence. Of the 250 families who live here, some 60, says Puy Sao, a 29-year-old mother of six, depend wholly on the forest for their livelihood, and many others in part. The nearest health clinic is in the provincial capital, 70km away, but the forest has medicinal plants. It also has resin trees that can be tapped, among other things, for oil used for lighting. And then there are wildlife products, such as beeswax. In her yard, Ms Sao is rearing a wild boar that her husband caught when it was young.

A few years ago a company from Guangdong in southern China was granted a concession to log a reputed 17,000 hectares (42,000 acres) in Kampong Chhnang province and elsewhere. That in itself is a breach of the law, which is meant to restrict concessions to 10,000 hectares per bidder. In 2004 about 100 locals, including Ms Sao, went to Phnom Penh to protest that they, too, had a claim to the forest, but police outside the forestry ministry threatened to beat them.

The Chinese have since logged 1,700 hectares at Krang Skear, replanting some of it with a monoculture of acacia, a fast-growing but poor-quality tree. A giant plough, made in China, lies abandoned, along with hundreds of smashed jars that contained the tree seedlings, also brought from China. The Chinese workers have vanished, but will presumably return to cut the less accessible virgin forest in the hills beyond. Both the company and the government refuse to talk to locals.

Cambodia is in the midst of a land grab. High politicians and fly-by-night Chinese companies suddenly crop up as owners of vast tracts of valuable hardwood forest that get cut and shipped out to Vietnam or up the Mekong River to China, now that Chinese engineers have dynamited a navigable channel into Yunnan province.

Tree of life

The problem is most serious in the deeply forested parts of the country populated by non-Khmer minorities, such as the Phnong. In these forests, households “own” particular resin trees that can be tapped for 50-60 years, bringing in perhaps $350 a year for the most valuable resins, according to the Wildlife Conservation Society. But, says an expert at one non-governmental organisation, Chinese companies come in and cut the trees down. Sometimes they promise schools and health clinics, but they rarely deliver.

The land grabs are only the most prominent examples of Cambodia's endemic corruption, from the office of the prime minister, Hun Sen, all the way down. Recently a government minister threw a housewarming party for his new mansion which features a moat around which you can jet-ski. He boasted to ambassadors about the value of his house.

Corruption is a constant gripe of locals and of aid donors trying to help rebuild this country of nearly 15m after the ravages of genocide by the Khmer Rouge and a civil war that sputtered on until recently. The government chafes at the conditions which donors place on their aid. In recent years the World Bank has suspended several projects after discovering misappropriation in the procurement process. For instance, one project included a service centre for maintaining (Chinese) motorcycles provided for demobilised former guerrillas; the centre turned out not to exist. When the World Bank presented the evidence to the powerful deputy prime minister, Sok An, he angrily refused to read the report. Only after the World Bank threatened to suspend its whole Cambodia programme did the government pay back money the bank had shelled out.

Now the government has an ally: China. Last March Cambodia's aid-givers—including the World Bank, the Asian Development Bank (ADB) and bilateral donors, though not China—agreed at their annual gathering with the government to provide the country with just over $600m in aid—the equivalent of three-fifths of the national budget. But at the same time they dressed the government down for the country's poor human-rights record and for letting one more year go by without passing an anti-corruption law. The aid would come with lots of conditions.

Alamy

Part of the bargain

Imagine the donors' shock last April when China's prime minister, Wen Jiabao, paid Cambodia a visit and announced that China would pony up $600m for roads, dams, whatever—equivalent to almost the entire international aid budget. And, it seemed, with no strings attached.

Mr Hun Sen has been rubbing donors' noses in it. At a recent ceremony to mark the opening of a Chinese-built road in the country's north-east, he praised China for honouring Cambodia's “independence and integrity”. All Cambodians ask, he said, “is for an equal relationship with its partners...China is a very big country...If 1.3 billion Chinese urinated all at once, they would cause a great flood. But China's leaders do good things with their partners...When China gives, it doesn't say do this or do that. We can do whatever we want with the money.”

Chinese aid, however, is not always as generous as it seems. Smoke-and-mirrors accounting certainly exaggerates the sums on offer. Besides, the great bulk of aid is in the form of loans that will have to be paid back one day. In Cambodia's case, Western diplomats suspect that Chinese pressure is a factor behind delays in a United Nations-backed tribunal that is meant to be trying elderly former Khmer Rouge

leaders on charges of genocide.

No messing about

Even so, some development specialists show a degree of sympathy for Cambodians wanting to take China's cash. Of the many donors in Cambodia, only the World Bank, the ADB and Japan are really building the things that people need, such as roads, schools and hospitals. Too much traditional aid is in the form of so-called technical assistance that often benefits the donor countries more than the recipients. (South Korea's help in providing “smart” national identity cards is an egregious example.) Besides, the time spent dealing with so many do-good Western agencies, each with an aid agenda that almost certainly conflicts or overlaps with others, sorely tests the government of a poor country short of institutional resources. In this light, China's offer just to get on and build the road looks tempting.

But why should China want to help in the first place? The answer is energy. An oil and gas bonanza lies just offshore in Cambodian waters. Though Chevron of America has rights to the only block where large proven reserves exist, much more oil is expected to be found, and Chinese oil majors intend to bid for it. For China, oil shipped from Cambodia has strategic value, for it would not have to pass through the American-guarded Malacca Straits—called “China's windpipe” by strategists in Beijing—on its way to the mainland. For Cambodia, a country historically overshadowed by bigger powers, oil revenues of perhaps more than $1 billion a year will give its masters some of the respect they crave. A bit of the money might even trickle down to the people.

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Here comes trouble

Mar 29th 2007
From The Economist print edition

China's little brother is a big headache

Reuters

A blue-water navy in the making

WHEN North Korea lobbed a handful of missiles into the Sea of Japan last summer and then exploded a nuclear device beneath a mountain in October, its putative enemies, South Korea, Japan and America, had good cause for alarm. Yet the chief victim of North Korea's nuclear shenanigans appeared to be China, the obstreperous country's socialist ally and long-time big brother.

For a start, there was the loss of face. The tests made a mockery of the idea that China's policy of good neighbourliness could win over Kim Jong Il and his brutal regime. The Beijing government's credibility as a mediator—it had been the host of six-nation talks designed to get Mr Kim to disarm—was knocked. So China's decision to back United Nations resolutions condemning North Korea, imposing sanctions and even opening up the possibility of using force broke cleanly with the past. Despite a friendship treaty going back to 1961 which provides for both sides to come to each other's aid in danger, China made it clear it was no longer the North's protector. The North Korean regime chose to present this change of mind as an act of treachery.

Yet much to everyone's relief, North Korea soon sent out signals suggesting that it might sit down again at the six-party talks first convened in 2003 (and also including South Korea, America, Japan and Russia) from which it had flounced out in September 2005. In mid-February, against most gloomy predictions, a conceivably historic deal was struck and China regained a good deal of the face it had lost.

The deal cleared the way for international nuclear inspectors, kicked out in 2002, to return to North Korea. It also laid out a path for the country's nuclear facilities to be dismantled, normal relations between North Korea and America to be established and permanent peace to be declared on the peninsula at long last, more than half a century after the end of the Korean war. At each step of the way North Korea is to be rewarded for doing the right thing. Bank accounts in Macau are to be unfrozen, and North Korea is to get fuel oil or “equivalent” aid.

Nobody believes Mr Kim can be trusted to stick to the bargain without the closest supervision. Yet there is some cautious optimism that he can be tempted away from his nuclear ambitions. For President George Bush—who in early 2002 had included North Korea in his “axis of evil” and who had called Mr Kim a “pygmy”—putting faith in the deal marks an about-turn. He had been strongly critical of a similar bargain struck in 1994 by his predecessor, Bill Clinton, which later unravelled.

To judge by conversations in Beijing, China is the most sceptical, even pessimistic, about the deal with North Korea. Officially the tone is upbeat. Below the surface, however, run deep concerns.

North Korea-watchers in America, Japan and South Korea tend to suggest that Mr Kim's decision to go nuclear was a response to Mr Bush's axis-of-evil speech. The lesson that North Korea drew, this argument goes, is that if you do not want to be invaded by America, as was Iraq, then it is best to get your weapons of mass destruction up and running. Once your own security is assured, you can bargain from a position of strength.

Many Chinese disagree. Zhang Liangui, professor of international strategic research at the Party School of the China Communist Party Central Committee and a former student in Pyongyang, says that the Kim dynasty's quest for nuclear weapons has been relentless over two generations, beginning (with Russian help) with Mr Kim's late father, Kim Il Sung, in the early 1950s. Mr Zhang says the regime's motives are twofold. One is to strengthen internal legitimacy. The second is to transform strategic relations with all its surrounding powers, and particularly with China and Japan: the Korean psyche is deeply sensitised to a history of neighbours invading the peninsula. Meanwhile the regime can see for itself that the Bush administration is hugely stretched in Iraq and Afghanistan and does not believe America has the will for intervention (it may be wrong). North Korea might well want detente with America, says Mr Zhang, but that is a separate matter.

What's the deal?

It follows from this reasoning that not all policymakers in Beijing expect North Korea to give up its nuclear capability. The February agreement certainly leaves room for doubt. The government in Pyongyang is committed to freezing swiftly its main nuclear facility at Yongbyon, where, among other things, plutonium is extracted from spent fuel rods. But the deal mentions only an initial “disablement” of facilities, not their abandonment. Uncertainties remain about whether the regime will come clean about its uranium enrichment. There is nothing in the agreement to stop North Korea from conducting another test (though Mr Kim presumably knows that that would blow up the deal with it). Lastly, the deal does not make clear what will be done about North Korea's existing nuclear weapons, thought to number eight to ten. Mr Zhang thinks that the regime will want to hold on to its existing weapons but explains that “for China, this would be unacceptable.”

The pessimism runs deeper than not taking Mr Kim at his word. It has to do with how the Chinese think events on the Korean peninsula might affect the region's strategic balance, and how that, in turn, might affect the future of Taiwan. It helps to remember that whereas in economic terms China and America have a mutually beneficial, even symbiotic relationship (America buys Chinese exports, China recycles the dollars to help fund the American current-account deficit), in strategic terms Chinese policymakers see the rivalry as intense. America has military alliances that surround China, with troops in South Korea and Japan and powerful seaborne forces. Moreover, however much China might wish Taiwan to be an “internal” matter, America underwrites the island's security, through the Taiwan Relations Act (which commits it to helping Taiwan defend itself) and through the sale of weapons systems for defence against a Chinese attack.

All this explains why some policymakers in Beijing can see no satisfactory outcome to the nuclear crisis. Writing in *China Security*, a Washington-based journal, Shen Dingli, a prominent strategist at Fudan University in Shanghai, says that whether China likes North Korea or not, the country has for 50 years served as a strategic buffer, keeping tens of thousands of American troops pinned down and allowing China to deploy more force directly opposite Taiwan to dissuade the island from declaring independence. A nuclear North Korea would further help contain America, deterring it from intervening in any hypothetical conflict across the Taiwan Strait. North Korea, then, is China's “guard post,” Mr Shen writes. “This is the link between North Korea and Taiwan.”

And what if North Korea dismantles its nuclear programmes, exchanging weapons for American friendship, rather as Libya has done? Or if it keeps its nuclear weapons and thus provokes America into toppling the regime? For China, many strategists think, this would be disastrous, putting Japan, South Korea, North Korea and Taiwan—“a part of China”, after all—all firmly in the American camp. “In this case, China's security pressure regarding Taiwanese independence would be far more severe a burden, [one] that would be hard to bear.” It's a hard life being a Chinese strategist, obliged to look at the world in zero-sum terms.

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Heavenly dynasty

Mar 29th 2007
From The Economist print edition

As long as China is not satisfied at home, it cannot be satisfied in the world

AFP

A question of Hu and Wen

"LET us imagine", says Lin Chong-pin, president of Taiwan's Foundation on International and Cross-Strait Studies, "how President Hu Jintao in his dreams might wish the opening of his Beijing Olympics to be." Not only, says Mr Lin, will he have brought the world's finest athletes there, but also its artists and celebrities. So far, so plausible. He will also have, on his right hand, the leader of the communists' civil-war foe, the Kuomintang, newly elected in the spring of 2008 as president of Taiwan. And on his left a beaming Dalai Lama, thankful to be back on Chinese soil once more after an exile of nearly 50 years. "It would", says Mr Lin, "be the heavenly dynasty all over again, and the barbarians coming to worship." That this happy vision, though technically possible, is still implausible provides insights into the paradox of China's rise.

On the one hand, China appears over the past decade to have signed up wholeheartedly to an international order, of globalised trade and rules-based relations among states, that was not of its making—even as America, the chief architect of that order, has partly walked away from it, with its "coalitions of the willing" and growing opposition to unfettered trade.

China has signed up because it realises it is probably globalisation's greatest beneficiary. This, more than anything, explains the country's remarkable levelheadedness in its dealings with the United States ever since the last crisis in bilateral relations, in 2001, when an American spy plane collided with a Chinese fighter. The levelheadedness has paid off. For as American power has been distracted in the Middle East, so Chinese power has moved up.

A touch of the diabolic

On the other hand, Chinese intentions about what to do with its power in the long run remain deeply ambiguous. If China sees its constellation as heavenly—and the Chinese, like the Americans and the French, have a sense of manifest destiny—neighbours see hints of the diabolic.

Perhaps the growth in the military budget reflects China's growing wealth and prestige, along with a desire to protect its rising shipments of oil and other commodities: the country seems bent on building a blue-water navy. Understandable, perhaps, within China's terms of reference, to have a military strength capable of deterring Taiwan from declaring independence. But why missiles with a range to hit Japan? Why, in January, did China test-fire a rocket to destroy an old weather satellite, when it insists no one is

more committed to the peaceful development of space? And why, last autumn, did a Chinese submarine suddenly pop up next to the *Kitty Hawk*, an American aircraft carrier?

Equally, what is China doing building roads, ports and pipelines in Myanmar and Pakistan, connecting west and south-west China with the Bay of Bengal and the Indian Ocean? The point could simply be to help the development of backward Chinese regions. But these links could equally serve as future supply routes for the Chinese navy. For Brahma Chellaney, at the Centre for Policy Research in Delhi, the conclusion is plain: along with the planned extension of the new Qinghai-Lhasa railway, which could in theory bring military material up quickly to the Tibetan border, “it amounts to a strategic squeeze of India.”

India's government is less willing than some of its intellectuals to see China's actions as a strategic squeeze. Nevertheless, it is trying to balance China's advances. Noting that the West's abandonment of Myanmar in the absence of democratic change opened the way for Chinese influence, India is trying to make its own advances to the awful regime there. ASEAN is doing the same.

Thus China's rise is quietly bringing about an opposite, if not yet equal, reaction. Japan's relations with China are much improved since the anti-Japanese riots two years ago sparked by visits by the then prime minister, Junichiro Koizumi, to Yasukuni, Tokyo's militarist war shrine. As soon as Shinzo Abe became prime minister last September, he made a fence-mending trip to Beijing. North Korea's nuclear games may also have pushed Japan and China closer.

As for Taiwan, China currently calculates that in next year's presidential election a pliable Ma Ying-jeou, the KMT's favoured son, will succeed the independence-minded Chen Shui-bian of the Democratic Progressive Party. Mr Ma's election prospects, however, have got murkier since his indictment in February over alleged misuse of funds during his time as Taipei's mayor. And even if he does win, China may face disappointments.

It believes it has an understanding with the KMT (whose elder statesman, Lien Chan, visited the mainland in a groundbreaking trip two years ago) that Taiwan is a part of China. Certainly, Mr Ma says he will push for closer economic co-operation and wants Taiwan to be a “peacemaker not a troublemaker”. But he also says the Taiwanese want to keep the status quo—in other words, a sovereign Taiwan that is independent in all but name. “We will not pursue talks on reunification,” Mr Ma insists. “The matter will have to wait until the mainland becomes democratic and prosperous.”

The home front

Doubts about China's intentions, however, stem perhaps less from its actions overseas than the values that underpin its behaviour at home. After all, China's political and economic affairs are still run with what is essentially a Leninist apparatus of state. The state's instinct is to co-opt those within the empire who question the political orthodoxy—or if that does not work, to deal with them harshly. Thus the Dalai Lama is vilified, and Tibetans are demeaned in their own land. Over Taiwan, China reserves the right to nuke what it says are its own people.

As the Dalai Lama puts it: “Mr Hu's constant emphasis on a ‘harmonious society' suggests that something is missing.” China is wracked by social inequality, environmental damage and government corruption. Beijing's preparations for the Olympics are a heart-rending metaphor for this. The games have provided a pretext for an orgy of official corruption and cultural vandalism which in a few brief years has all but destroyed a unique historical city. A few scraps have been left for touristic consumption. Beijing's inhabitants have been shunted into tower blocks on the city's edges. In their place rise vast bombastic structures, architects' and politicians' self-indulgences with no civic context.

A constant theme heard from thoughtful Chinese is that China's rise lacks a moral underpinning, and that a moral vacuum lies at the heart of Chinese life. The Dalai Lama puts the blame on the Communist Party's “radical atheism” and predicts that “sooner or later, a spiritual or moral culture will have to come to fill an internal emptiness; externally, there will have to be rule of law, democracy, freedom of the press.”

A slow enriching of both public and private life may already be under way. Non-government organisations to tackle social and environmental issues have grown hugely in number since earlier this decade. Some corners of the press have pushed the frontiers of what they can write about. And across China evidence is growing of a resurgence of spiritual and religious inquiry.

All the same, raw and volatile forms of nationalism lurk just beneath a usually placid surface. They erupted in 1999 when NATO bombs struck the Chinese embassy in Belgrade during the Kosovo war, and again in anti-Japanese riots in the spring of 2005. Internet chatrooms are full of vituperative anti-foreign sentiment.

The memories of past horrors in China—foreign occupation, civil war, the cultural revolution—have made older Chinese generations into advocates of a peaceful region. All the same, the current leaders ignore popular sentiment at their peril. Passing on the lessons of history to a younger, more nationalistic generation that never experienced horrors at first hand is China's "big problem", says Lee Kuan Yew, Singapore's elder statesman.

Carrie Devorah - WENN

The Dalai Lama sees a moral vacuum

All this feeds into the neighbours' surviving suspicions about China's intentions, despite a decade-long charm offensive. So long as China is not satisfied within its own borders, how can it be satisfied in the world?

In the long run, this will place limits on Chinese power and influence. It is not just America's allies such as Japan and Taiwan that want it to stick around for a long while yet. ASEAN countries also need the United States to balance China. Singapore recently signed an agreement allowing American forces greater access; Indonesia and America have resumed bilateral military contacts; and Vietnam wants to forge a strategic alliance with its former enemy.

There is also, Thailand's recent military coup notwithstanding, Asia's general embrace of democracy. Michael Green of Georgetown University, a former Asia director at America's National Security Council, sees it as a tremendous potential source of "soft" power for America. Whereas China rigidly sticks to its policy of non-interference in the affairs of other nations, ASEAN has moved on. Malaysia's prime minister, Abdullah Badawi, says ASEAN's hallowed principle of non-interference must be "updated". A new draft of ASEAN's governing charter says that regional stability rests on "the active strengthening of democratic values, good governance, the rule of law", and so on.

Such sentiments around Asia might, at the very least, stand in quiet opposition to Chinese power. But if China embraced some of them for itself, who can guess at the limits to its celestial realm?

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Mar 29th 2007
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The author wants to thank all those who gave generously of their time and expertise in the preparation of this report. In addition to those named in the text, they include Nisha Agrawal, Bu Ping, Elizabeth Evans, Graham Fletcher, Hak Sarom, Him Sarann, Bert Hofman, Hu Sheng-cheng, Hu Zhengyue, Jean-François Huchet, Koichi Kato, Liu Jinsong, Lo Chih-cheng, Masayuki Masuda, Morio Matsumoto, Pratap Bhanu Mehta, Satoshi Morimoto, Joseph Mussomeli, C.V. Ranganathan, Vaughn Rixon, Samdhong Lobsang Tenzin, Shen Jiru, Noriyuki Shikata, Sun Shihai, Tomohiko Taniguchi, Tempa Tsering, Tenzin Taklha, Thubten Samphel, Tung Chen-yuan, Tim Wainwright, Jim Walker, Joseph Wu Jaushieh, Xue Jun, Mitoji Yabunaka, Yue Deming and Zhai Kun.

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India's acquisitive companies

Marauding maharajahs

Mar 29th 2007 | DELHI
From The Economist print edition

The more Indian firms make acquisitions, the more acquisitions they want to make

David Simonds

FOR proud Indians, nothing—except perhaps victory for their national cricket team—is as sweet as the sight of Indian companies marauding acquisitively across the globe. And marauding they are. So far this year Indian firms have announced 34 foreign takeovers worth more than $10.7 billion in all, according to Dealogic, a market-research outfit. Last year's total was $23 billion, more than five times the previous record and more than the investments made by foreigners in Indian companies. For local industrialists, among the proudest Indians, the buying binge indicates a renaissance, and not only in business. “There's a new India emerging,” says Kumar Mangalam Birla, chairman of the Aditya Birla Group, a big conglomerate. “This shows the new-found respect that India commands in the global arena.”

He should know. Last month Hindalco, the group's aluminium company, bought Novelis, an American rival, for $6 billion, making it the world's biggest aluminium-rolling company. This was barely a week after Tata Steel, India's biggest private steelmaker, sealed an even bigger deal that it had embarked upon last October. It agreed to buy Corus, an Anglo-Dutch rival, for $13.2 billion, a sum nine times the size of the previous largest foreign acquisition by an Indian firm.

Both deals partly reflect the conditions that are encouraging many smaller Indian businesses to buy globally, in pharmaceuticals, computing, car parts, energy and so on. With GDP growth averaging 8% and efficiencies wrought in leaner times, Indian firms have been minting money in the past three years. Their average profit margins are around 10%—more than twice the global average. By one estimate, 60% of India's 200 leading companies are looking to invest this loot in foreign purchases.

Financing such deals is easier than ever. After reforms to capital markets, the stockmarket has exploded even as interest rates have remained low. Other bottlenecks have been removed, including rules limiting the debt that companies can accrue. Last year Ranbaxy, a pharmaceuticals company, used a $440m bond issue to help fund eight acquisitions, in America, Romania, Italy, South Africa and elsewhere. Equally important is the bristling confidence that these advances have imbued in Indian companies. Mr Birla says it would have been very hard to imagine buying Novelis five years ago.

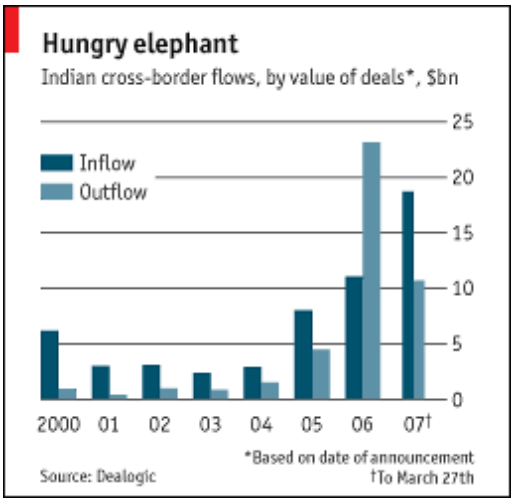
The total value of Indian purchases abroad accounted for 1.8% of that of all cross-border deals last year. But they are growing, with the size of the average Indian foreign acquisition rising tenfold, to $315m, in

recent years. Indian business looks certain to continue globalising, partly by buying foreign companies. The removal of remaining barriers to foreign direct investment in India will also bring global benefits, of technology and scale, back home. On March 22nd, after much delay, the government approved a proposal to raise the limit on foreign ownership of telecoms firms to 74%.

Indian companies began their spree in around 2000, which saw 50 foreign deals, together worth less than $1 billion. Most of the deals were, as they still are, done by pharmaceutical and computer-services companies. These were notable survivors of a traumatic liberalisation in the 1990s. They emerged sleeker, more competitive and lusting for new markets for their exports. For such firms, foreign acquisitions are a way to connect their cheap and skilled workforce to new markets and established clients. “For us, India is only one market in the world, though an important one,” says Malvinder Singh, the boss of Ranbaxy, which generates 80% of its business abroad. (That said, Ranbaxy has been more cautious of late. On March 20th it pulled out of the bidding for a subsidiary of Merck, a German drugs giant, which would have made it the world's seventh-biggest maker of generic drugs.)

Another acquisitive urge is for technology, for example in manufacturing. That is one reason behind Hindalco's purchase of Novelis, which makes aluminium cans, a high-value product. To develop a similar facility in India would have taken Hindalco around five years, which it did not have. “In the next three years we'll be long on aluminium,” said Mr Birla. “And this aluminium needs to go somewhere to get value added.” Technology is a big concern for Suzlon Energy, the world's fifth-biggest maker of wind turbines. Last year it paid $565m for Hansen, a Belgian gearbox-maker. “Suzlon understands wind technology and Hansen understands only gearboxes. Now both R&D teams are sitting together, designing products,” says Suzlon's chairman, Tulsi Tanti. Last month Suzlon made a $1.3 billion bid—the third-biggest by an Indian firm—for REpower, a German turbine-maker.

Such deals are typical for companies from emerging economies. Tata Steel's acquisition of Corus was different. The company survived liberalisation, and then prospered, by investing in sophisticated capital-intensive production. As the world's lowest-cost steel producer, it was able to raise the money to buy Corus, its bigger rival, and become the world's fifth-largest steelmaker. It now aims to dominate its market. Only a handful of Indian firms are capable of such vast ambition. And most, being family-owned, may be too reticent to accept the associated risks.



Nonetheless, the tide of foreign acquisitions by Indian companies will continue to rise, with more and bigger deals. How successful they will be is less certain. No big foreign acquisition has failed so far—even though, according to consultants at McKinsey, that is the fate of 60-70% of cross-border takeovers. “It's important for companies to look at the economic rationale, and not get taken to extremes by emotion and ego,” says Ranbaxy's Mr Singh. Wise words for proud Indians, especially since their cricket team keeps losing.

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Multinationals in Asia

All mouth and no trousers

Mar 29th 2007 | HONG KONG
From The Economist print edition

Are foreign firms as keen on Asia as they claim to be?

THE announcements come in bold headlines. On March 26th Intel trumpeted plans to build a $2.5 billion chip plant in China. This follows deals in various other industries, including pharmaceuticals and aviation. With $6 billion of foreign direct investment pouring into China alone each month, and other Asian countries growing at a feverish pace, it seems that foreign firms are racing to build up their operations.

But are the headlines and the big numbers misleading? The Boston Consulting Group (BCG) analysed several large western firms and found that, although an estimated 34% of the potential market for their goods is in Asia, the region accounted for only 14% of sales, 7% of employees, 5% of assets, 3% of research and development and 2% of their top 200 people. And these disparities are growing larger, not smaller. “When most corporate groups see this analysis, they say ‘That's our company, too’,” notes David Michael of BCG.

Several explanations spring to mind for the discrepancy between perceived opportunities and actual behaviour. Going into new markets is risky; Asia's boom is still young, so big firms lack the hard data they need to commit; and of course there are currency and foreign-ownership restrictions to worry about (China, South Korea, Thailand, the Philippines, Indonesia, India), the threat of expropriation (South Korea, Thailand), subtle legal changes aimed at foreign firms (Japan) and corruption (everywhere).

Staffing is also a problem. For top executives, moving to Asia requires a leap of faith. A senior manager at one global firm says that, with rare exceptions, Asia is a “career killer”—at the end of a successful tenure there is nowhere to return to at head office. Putting locals in charge can result in embattled regional offices without strong links to headquarters, and headquarters without strong local knowledge.

Some bosses think that a lot of travel in Asia signals their commitment to the region, says BCG. Aircraft to China and India are packed with executives trying to inhale whatever it is that produces rapid growth. The trouble with this approach is that in regions where efficient execution is paramount far too much time is spent ensuring that visitors from head office have a successful trip. And as local managers go overboard to display their success, they weaken the case for more resources.

One example has become a well-understood signalling device for who is visiting China: the rental of a huge billboard on the road between Beijing airport and the city to advertise a firm's products. The idea is that a visiting boss will see it on the drive into town and remark on the company's prominence in China. The sign is changed a few days later as the next boss, from another firm, touches down.

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Russian oil

Yuk

Mar 29th 2007 | MOSCOW
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Yukos is at last being put out of its misery. Guess who is profiting

Get article background

THERE were no bids from mysterious bimbos, and the auctioneer was not wearing a bow tie. Although the sale on March 27th of a 9.4% stake in Rosneft, a state-controlled Russian oil firm, lacked some of the quirks of previous Russian auctions, it did exhibit some traditional features. It lasted only a few minutes, and the goods went for a song to the expected winner—in this case, Rosneft itself.

This was the first in a series of auctions of the remaining assets belonging to Yukos, once Russia's top oil company, which was forced into bankruptcy (wrongly, it says) last year by alleged tax arrears and penalties amounting to roughly $33 billion. Yukos's stake in Rosneft was a leftover from the knock-down sale, in 2004, of most of its main subsidiary to a farcical front company, which was itself acquired by Rosneft soon afterwards. The price for this week's lot, which included some lesser assets, of 197.8 billion roubles ($7.6 billion), represented a 10% discount on market value: nice business for Rosneft, though less good for the Russian state and people.

Other would-be buyers—including Gazprom, the state-controlled gas giant, and some foreign energy firms, possibly in collaboration with Russian ones—are likely to come forward. Most important for the future of the Russian oil industry will be the fate of Yukos's two remaining production units and its network of refineries. Having just borrowed $22 billion from several foreign banks, Rosneft looks poised for more bargain buys. Since it is also Yukos's biggest creditor after the taxman, Rosneft should recoup much of its outlay swiftly. (The large tax bills served on the Yukos subsidiary it already owns have been considerately reduced by the courts since Rosneft took it over.)

The most interesting aspect of this week's sale, held at Yukos's now sombre headquarters, was not the identity of the winner but that of the only other bidder: TNK-BP, an Anglo-Russian oil firm that Britain's BP bought into before the Kremlin circumscribed foreign participation in Russia's energy industry. In a replay of Shell's experience on Sakhalin Island, TNK-BP is having trouble holding on to its investments, in particular the giant Kovykta gas field in Siberia that it controls. Ludicrous licensing rules are helping Gazprom to muscle its way into that project—and perhaps into overall control of the company.

Lord Browne, BP's chief executive, visited Russia's president, Vladimir Putin, last week. Speculation has it that TNK-BP's involvement in the auction was meant to confer legitimacy on the event (Russian law requires at least two participants), and thus to curry favour with the Kremlin—and perhaps also with Rosneft, which might be a more palatable partner than Gazprom. Though TNK-BP insisted that its interest in the auction was real, it seemed to wane pretty quickly. Meanwhile, more charges are being brought against Mikhail Khodorkovsky, Yukos's former boss, who was arrested in 2003, and PricewaterhouseCoopers, Yukos's auditor, has also been targeted by prosecutors. Those cases also seem designed to help justify the sell-offs. But larceny, even with a (relatively) respectable face, is still larceny.

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Porsche and Volkswagen

From David to Goliath

Mar 29th 2007 | FRANKFURT
From The Economist print edition

A forthright boss decides that small is not always beautiful after all

WENDELIN WIEDEKING, the punchy boss of Porsche, the world's most profitable small carmaker, has often described his firm as a David amid the industry's Goliaths. In 2002 he published “The David Principle”, a book of essays on that theme by some of the great and the good. Time and again, he believes, he has shown that the giants “can't simply flatten all around them and think they will survive”.

So why has Mr Wiedeking now made a takeover bid, albeit not a serious one, for Volkswagen (VW)—the biggest carmaker in Europe? The official answer is the one he has given since he started buying VW shares in September 2005: to secure his co-operation agreements with VW. Those involve, for example, the chassis design, or platform, on which the Porsche Cayenne sport-utility vehicle, the VW Touareg and the Audi Q7 are based; and the new platform which will underpin the Panamera, a forthcoming Porsche sports car.

EPA

No question who's on top

An unsettling raid on VW shares, or a threatened break-up by a hedge fund or private-equity buyer, could spell an end to those agreements, argue people at Porsche. In the face of that threat, spending around €5 billion ($6.7 billion) to buy 30.9% of VW and secure the agreements is a good deal, they say. Porsche's 30.9%, combined with the 20.3% held by the government of Lower Saxony, provides majority control against all comers—provided the firm and the government continue to see eye to eye.

That may not be so for ever. Christian Wulff, the premier of Lower Saxony, said on March 27th that he would not rule out raising the *Land*'s stake to 25%. He does not want to appear as powerless on VW's supervisory board against Porsche's influence—embodied in the chairman, Ferdinand Piëch—as he did last year when Mr Piëch high-handedly replaced VW's chief executive with another of his choice.

Mr Wiedeking and Holger Härter, his finance director, would not have taken their VW stake to over 30% this week (triggering a mandatory takeover bid) if they had not been sure of two things—besides the approval of Mr Piëch, whose family owns and controls Porsche. The first is that the market price of VW shares was well above the mandatory offer price of €100.92. The second is that sooner or later the government will abolish the 1960 Volkswagen Law, which limits the voting rights of any shareholder to 20% and gives the federal and regional governments seats on the supervisory board. In February the advocate-general of the European Commission gave a damning opinion of the law, on the grounds that it deters foreign investors. The case is expected to be decided by the European Court in the next few months.

Porsche's move superficially resembles those by hedge funds and other activist investors recently to influence strategy at German firms including Deutsche Börse, IWKA, CeWe Color and Techem. But Porsche's motives are very different: it has increased its stake to prevent a change in strategy at VW, rather than encourage one. Mr Wiedeking appears to have no ambitions to restructure VW or to run it himself.

Even so, the David moniker no longer quite fits. For years Mr Wiedeking has scoffed at the notion of quarterly financial reporting, even though that has excluded Porsche shares from any stock indexes, such as the DAX and MDAX, run by Deutsche Börse—probably increasing the cost of capital. This week Porsche challenged Deutsche Börse in the administrative court in Cassel for requiring quarterly reporting as a

condition of entry and lost, but will almost certainly appeal. His desire for a listing suggests that Mr Wiedeking now wants to join the Goliaths.

Mr Wiedeking is one of those rare beasts in the corporate jungle who have not yet had their come-uppance. He is widely revered for his forthrightness and his leadership of Porsche, from the dark days of near-bankruptcy in 1993 when he took over, to years of growth and glowing results today. So it would be a pity if this David overreached himself and fell victim instead to another phenomenon, known as the Peter principle: promotion beyond one's level of competence.

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Business in Austria

Not so welcome in Vienna

Mar 29th 2007
From The Economist print edition

Austria is toying with a curious new form of protectionism

“TO CALL it a catastrophe was a catastrophe,” says Martin Bartenstein, Austria's economics minister. Last week Alfred Gusenbauer, Austria's chancellor, called the bid by CVC, a British private-equity group, for Böhler-Uddeholm, an Austrian steelmaker, a catastrophe because the firm is a jewel of Austrian industry. But that is just Mr Gusenbauer's personal opinion, says Mr Bartenstein. It is not the government's official position. (The bid was rejected on March 28th.)

Tensions within Austria's grand coalition of Socialists and the centre-right People's Party are running high as the political and industrial elite, led by Hannes Androsch, a former finance minister, discusses the establishment of a private-equity fund to protect Austrian companies from foreign takeovers. The so-called Austro-fund would buy controlling stakes in firms such as Böhler (the potential sale of which triggered the debate), Wienerberger, the world's largest maker of clay bricks, OMV, an oil and gas company, Voest, a steelmaker, and Lenzing, a maker of cellulose fibre. The fund's start-up capital would be €1 billion ($1.3 billion), which would grow to at least €5 billion.

Leading bankers and industrialists are at loggerheads over the idea. Andreas Treichel, the boss of Erste Bank, Austria's second-biggest bank, says he will not play ball. Nor will the head of Wiener Städtische, an insurance company, or the boss of Wienerberger. Ludwig Scharinger, the boss of Raiffeisenbank, another bank, and Christoph Leitl, the head of the Economic Chamber, a lobby group, are in favour of the plan. Veit Sorger, head of the Federation of Austrian Industry, says Austrian capital in Austrian companies is a good thing, but the Austro-fund must not get preferential treatment over other private-equity firms. Politicians are mooting a state guarantee for the fund and tax exemptions for its dividend payments. Some have even talked about a re-nationalisation of Böhler through a takeover by the ÖIAG, Austria's state holding agency. (Böhler was fully privatised in 2003.)

Austria has a history of protectionism and strong state intervention in business. In 2004, it rebuffed Siemens of Germany for taking an interest in VA Technologie, a smaller Austrian firm, and authorised ÖIAG to take up Siemens' intended share of a planned VA Tech capital increase instead. In the same year the government turned down a deal to sell the state's 42% stake in Telekom Austria to Switzerland's Swisscom, and shelved plans to sell a quarter of the state-owned postal service to Germany's Deutsche Post.

Yet even while keeping foreigners at arm's length, Austrian banks and companies are big investors in eastern Europe, where cultural and economic ties dating from the Habsburg empire give the Austrians a competitive edge over bigger rivals from farther afield. Some 6% of foreign direct investment in central and eastern Europe is Austrian. Telekom Austria is one of the top telecoms companies in the region. Vienna's stock exchange bought the bourse in Budapest and is showing an interest in the stock exchanges in Bulgaria and Slovenia. Erste Bank makes almost two-thirds of its profits in eastern Europe.

“We used to say ‘Come to Austria—we are the better Germany’,” says Mr Bartenstein, who was in China this week to tout the advantages of doing business with and in Austria. Even if the Austro-fund never sees the light of day, he worries that the debate about it is damaging his country's business-friendly reputation in London and Frankfurt—and, even more important, in Sofia, Bucharest and Belgrade.

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Alternative energy

Headwinds

Mar 29th 2007 | SEATTLE
From The Economist print edition

Shortages of turbines and polysilicon are holding back the clean-tech boom

THESE should be heady times for Vestas, a Danish firm that makes more than a quarter of the world's wind turbines. The wind business is booming, and the company said last week that it had swung into profit in 2006, thanks to an 8% rise in revenue. But there is “significant unexploited production capacity”, Vestas says, due to shortages of high-quality turbine components. Other companies grumble about a lack of gearboxes and bearings.

Vestas

Order now to avoid disappointment

Wind firms' worries echo those in the solar-power business, which is also booming but where a shortage of polysilicon has hampered growth. Silicon is made from sand, which is abundant, but there are not enough refineries to turn it into solar-grade polysilicon. As a result, prices for silicon contracts have more than doubled, to $70 or $80 per kilogram, in the past three years, says Jesse Pichel, an analyst at Piper Jaffray.

In both industries demand has rocketed and supply cannot keep up. The wind business is growing by more than 30% a year worldwide, with America leading the way. (This week Energias de Portugal became the latest European utility to invest in American wind farms, with the $2.2 billion purchase of Horizon Wind Energy.) And when a solar incentive scheme took hold in Germany in 2004-05, demand in Europe roughly doubled, says Ron Kenedi of Sharp, the biggest solar-cell maker.

Supply shortages will not ease quickly in either case. Wind turbines are giant machines that require lots of parts. Several firms are building new factories: Vestas has just announced its first American plant, which will make blades in Colorado. But new factories will take several years to get up to speed. In the meantime, buyers are putting down deposits to reserve their turbines. GE Energy, the largest turbine installer in America, is already booked up until the end of next year.

Similarly, the big polysilicon producers, including Hemlock and MEMC, are expanding their capacity, says Rhone Resch of the Solar Energy Industries Association. But some of their additional output will go to chipmakers, which are still the biggest buyers of polysilicon (though the solar industry is about to take the lead). So polysilicon shortages and the associated high prices will not ease until at least 2009, Mr Pichel predicts. Sharp opened a silicon refinery—its first—in Japan in January. Technological advances may help. As solar panels become thinner and more efficient, less silicon is needed to make each one. And new “thin film” solar cells, being promoted by Sharp and a host of start-ups, require little or no polysilicon and are thus not vulnerable to supply shortages.

The wind industry, meanwhile, is hoping that America's government will come to its aid. A federal tax credit for wind has been allowed to expire three times in recent years. Indeed, the recent spike in wind activity may be due, in part, to efforts by companies to take advantage of the current tax credit, which expires at the end of 2008, notes Vic Abate, head of renewables at GE Energy. Credits that expire every year or two cause sudden booms and busts, making it hard for turbine-makers to make longer-term plans and thus holding back the industry, say proponents of wind power. If the Democratic Congress would kindly extend the credit for ten years—and also pass a federal “renewable portfolio standard” mandating that, say, 15% of America's energy should come from solar, wind and other alternative sources—the lobbyists would be delighted.

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Telecoms in the developing world

At your service

Mar 29th 2007
From The Economist print edition

The idea of "universal service" is being extended from voice to broadband

THE rapid growth of India's telecoms industry is visible not just in the subscriber numbers—over 6m Indians now sign up for a mobile phone every month—but in other ways, too. This week the government was to have announced the winners of an auction of the rights to create and run networks in remote rural areas. Around the world, such networks are often subsidised by a "universal service fund" (USF) paid for by taxes on existing telecoms services. Auctions are held, and the network operators that demand the smallest subsidies win. They must then provide a certain number of public payphones, as well as signing up subscribers.

But something rather odd happened in India: in 38 of the 81 regions on offer, many mobile operators bid zero. In other words, they asked for no subsidies at all. In 15 regions, India's biggest operator, Bharti Airtel, even offered to pay. As a result, barely one-quarter of the 40 billion rupees ($920m) available in subsidies is likely to be allocated. If operators reckon there is money to be made running mobile networks even in some of the poorest parts of the world, have USFs had their day?

Not exactly. Although Indian operators are rejecting subsidies for network equipment, they will still benefit indirectly from the fund, since it is also used to subsidise the establishment of shared sites for mobile-phone base-stations. Even so, India joins other countries, such as Nigeria and South Africa, where commercial mobile networks are rapidly expanding into areas previously considered uneconomical.

In countries where mobile mania is less acute, USFs can help to get the ball rolling. They have been particularly successful in Latin America. A recent study found that Peru's USF helped to reduce the rural population's average distance from a telephone from 56km (35 miles) in 1999 to 5.7km in 2002. This kind of achievement has encouraged countries in Asia, the Middle East and Africa, from Mongolia to Morocco, to establish funds. Around 2-5% of the world's population lives in areas where mobile services can be provided only at a loss, according to a report from the GSMA, an industry lobby group, and Intelecon, a consultancy.

As a result there remains a need for USFs, says Andrew Dymond of Intelecon. But funds are often managed inefficiently. Some governments collect huge sums which they then fail to spend. In India, around 5% of operators' revenues go to the USF; Brazil has yet to spend any of the $2 billion it has collected. Elsewhere, regulators have chosen to allocate the funds to extending fixed-line networks, rather than cheaper mobile networks.

The advent of broadband-internet connections is also changing attitudes to USFs. Since broadband links can carry both voice and data, some countries (such as Chile) are starting to subsidise broadband roll-out instead of just concentrating on phones. And with so much of its 75 billion rupee fund unspent, India's government is drafting proposals to subsidise the provision of broadband to every village.

But not everyone agrees that this is the right approach. Rather than subsidising village broadband, funds should be used to provide high-speed access at a district level, says Juan Navas-Sabater of the World Bank. It is then possible for a market to develop in which schools, hospitals and local councils buy capacity and entrepreneurs can establish self-sustaining private telecentres. This model is already taking hold in Uganda, Mongolia, Burkina Faso and Malawi. For universal-service funds and for telecoms in general, the trend is clear: phones first, broadband later.

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Management theory

Rhythm and blues

Mar 29th 2007 | CAMBRIDGE
From The Economist print edition

Can voguish management theory help to win a venerable race?

CAMBRIDGE UNIVERSITY'S “blue boat”, which faces its Oxford rival in the 153rd boat race on April 7th, glides past the browns and greys of the East Anglian fenland. The oars cup and spill the water, leaving eight evenly spaced dimples in the river behind them. Two catamarans track the boat's progress. In the first, Duncan Holland, the coach, looks for flaws in the rowers' technique. In the second sits a less congruous figure: Mark de Rond, a management theorist from Cambridge's Judge Business School. He thinks this time-honoured contest holds lessons for business today.

As in any company, the members of the boat club are torn between competition and co-operation. Colleagues vie with each other for preferment, yet must collaborate closely to fend off competition from without. To win a seat in the blue boat a rower must outshine his clubmates; but to go fast, rowers must synchronise their efforts with the same people they are trying to outdo.

On one recent outing Mr Holland noticed the tell-tale signs of a “rhythm fight” between two decorated rowers: each was trying, perhaps unwittingly, to impose his natural tempo on the other. Some coaches might just tell one to speed up and the other to slow down. But Mr Holland is willing to try some b-school thinking. So, like the problem-solving circles pioneered by Japanese steel plants, his rowers are encouraged to spot and solve such glitches for themselves. “I lead from the side,” he says.

Picking the best eight from more than 30 hopefuls proved tricky: not all of the possible permutations added up to the sum of their parts. Jake Cornelius, for example, arrived from Stanford University as one of the strongest rowers, but he seemed to upset the rhythm of the boat. So he was advised to row “anonymously”. As another rower put it: you stand out by not sticking out.

Dan O'Shaughnessy, by contrast, may not have the smoothest technique, but he still belongs in the swiftest boat. A flamboyant character, he gets the best out of his crewmates, who like to have him around, Mr de Rond says. Their views were backed by an article in the *Harvard Business Review*, which found that workmates prize amiability over ability, preferring the “loveable fool” to the “competent jerk”. Employees may be reluctant to admit this, but managers should take heed: teams that like each other also seem to work better together.

So both rowers will take their seats in the blue boat next week. The race is always a test of strength, stamina and technique. But this year's event may also show whether some innovative management thinking holds water.

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Face value

Fit for purpose

Mar 29th 2007
From The Economist print edition

“Healthy” television for children sounds crazy. But Magnus Scheving, alias Sportacus, has done very well from it

Getty Images

TODDLERS know Magnus Scheving, the boss of LazyTown Entertainment, as Sportacus. The hero of “LazyTown”, a children's television programme that promotes healthy lifestyles, Sportacus lives in an airship, performs somersaults at the drop of a hat and spends his time thwarting the plans of the town's lazy-minded villain, Robbie Rotten. The role fits Mr Scheving as snugly as Sportacus's blue lycra suit. He has built a colourful business driven by his own cartoonish levels of energy. “I wasn't made to sit at a desk,” he says, wriggling in his chair and constantly jumping up to scribble on a whiteboard, grab another piece of fruit or emphasise a point. Restlessness should not be confused with a lack of focus. In his 20s, Mr Scheving and a friend challenged each other to succeed at a sport neither knew anything about. Mr Scheving wound up with competitive aerobics, became European champion twice and finished second in the world. (He says his friend had to console himself with the crown of Icelandic snooker champion.)

Mr Scheving applies the same intensity to LazyTown. Now on air in more than 100 countries, the programme has won chart-topping ratings among pre-school viewers and a clutch of industry awards since making its debut in America in 2004. Success has been the result of careful planning. Mr Scheving spent more than a decade building the brand in Iceland before moving overseas. The television programme may have established LazyTown internationally but is only one part, albeit a critical one, of the overall franchise. “LazyTown is not a TV property but a lifestyle brand for children,” says Mr Scheving, who peppers his conversation with references to Walt Disney and Jim Henson, creator of the Muppets. A whiteboard in his office maps out a dizzying month-by-month plan of activities and product launches stretching to the end of 2011.

Mr Scheving first turned movement into money as a five-year-old, carrying messages in the Icelandic town where he grew up to people who did not own a phone. He began his working life as a carpenter, and he personally fitted out the studio on the outskirts of Reykjavik where “LazyTown” is filmed. In his spare time he worked as a fitness instructor and also built up a thriving sideline as a motivational speaker on health and fitness. He quickly realised that there were plenty of healthy role models for adults—but none for children.

The LazyTown characters first appeared in a book in 1991. Further books and musicals followed, all penned by the hyperactive Mr Scheving himself. Spin-off activities have included the LazyTown Economy, a month-long campaign in which Icelandic children used their savings to buy vouchers that could be traded for a range of healthy products. (Vegetable consumption went up by 12.5% during the promotion.) Mr Scheving says he had his eye on international expansion from the start but bided his time for three reasons. First, close-knit Iceland provided the ideal test of brand integrity because “people know where you live”. Second, he wanted to test the LazyTown concept on two generations of pre-schoolers, not just one. Third, he wanted to do some proper homework on the television industry.

His research indicated that successful children's shows have a number of attributes. Timelessness is one. Mr Scheving, who confesses to a “mania for detail”, designed the costumes and sets for “LazyTown” so that they cannot be dated. For similar reasons, the show's theme song, which reached number four in the British singles chart last December, was given an untranslatable title (“Bing Bang”) to smooth internationalisation. A distinctive style is also important. The vibrant mixture of computer-generated imagery, puppets and live action in “LazyTown” is instantly recognisable. It is expensive, too: each 24-minute episode costs $800,000 to make, an unprecedented amount for a children's television programme ($200,000 is closer to the norm). This makes it even more important to have a full range of licensing and merchandising opportunities to exploit. Toys, costumes and books already bear the LazyTown name in many countries. Live tours have been franchised in Britain and Latin America. Talks are under way with Nintendo to create a video game for its Wii console, which features a motion-sensitive controller. Internet projects are also being mulled.

Healthy scepticism

Licensing is one of two potentially sensitive areas for the LazyTown brand. There have already been some mutterings in Iceland about over-commercialisation. “We could have filled LazyTown products with advertising, but we haven't,” retorts a somewhat defensive Mr Scheving, who adds that the company could easily make much more money by skimping on the quality of the TV programme. But he admits that choosing the right products can be difficult, especially in food. Some decisions are easier than others. The company quickly turned down the chance to endorse a range of healthy crisps, for instance. Exercise equipment is also out of bounds—Mr Scheving is keen for “LazyTown” not to be labelled explicitly as a health or fitness show.

The other sensitive point is the obvious irony of a TV programme encouraging children to be healthier and more active. Surely they should start by switching off the box? Mr Scheving tries to brave it out. It is a fact that children watch television, he says—and TV has its place, in moderation. Faced with the growing problem of child obesity, governments are grateful for any help they can get in persuading youngsters to spend less time on the sofa. Iceland's health ministry has lauded LazyTown's impact, and Mr Scheving won the Nordic Public Health prize in 2004. The British government is now in talks with the firm over a joint campaign. At 42, Mr Scheving cannot play Sportacus for ever, but he is optimistic about the future. “Health is never going to go out of fashion,” he says, reaching for more fruit.

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Antarctic science

To coldly go

Mar 29th 2007 | THE SOUTH POLE
From The Economist print edition

Scientists travel to the bottom of the world to investigate the climate, the universe and the limits of life itself

Arcticphoto

AMUNDSEN came on a dog-sled. Scott came on foot. Most of today's visitors to the South Pole, however, come by plane, courtesy of the New York Air National Guard's special Hercules cargo aircraft, which are fitted with hydraulic skis. Much has changed in the 95 years since people first visited the Pole. Pemmican rations are a thing of the past. Your correspondent can sit in relative comfort within view of the ceremonial Pole marker, drinking tea and contentedly writing e-mails. The recently completed United States South Pole Station, pictured above, has most of the amenities of home, even if its 200 or so occupants are allowed only two-minute showers, twice a week.

Another thing that has changed is motive. Once, Antarctic science was strictly for eccentrics. It was poorly financed and the reason for paying anything at all was as much to do with keeping a toehold in the place as for the sheer joy of acquiring knowledge. Now the continent and its northern antipodes are seen as crucial to understanding the Earth's climate and how it changes. That understanding has become so pressing that some 60 countries are planning to spend a total of $1.5 billion to send more than 10,000 researchers north and south for the International Polar Year (IPY), which started this month.

One reason why Antarctica matters so much is historical. The continent's ice and the sediments of its seas preserve a pristine record of what has happened in the past. If that past is to illuminate the future, the continent must be studied in some detail. The other reason is pragmatic. About 90% of the world's ice is in Antarctica. If even part of that ice melted, the sea level would rise dramatically. Knowing how Antarctica's ice is responding to a changing climate, and predicting its future response, are therefore matters of more than academic interest.

The past is prologue

Among the ice historians are the members of the West Antarctic Ice Sheet (WAIS) Divide Ice Core project. This operates, as its name suggests, in the western part of the continent. Over the next four years the project's members will use a long, hollow drill to cut and retrieve a cylinder of ice roughly 3.5km long and 12cm across. The WAIS Divide site has several features that make its ice of special scientific value. In much of Antarctica so little snow falls each year that it is technically a desert. Consequently, the annual

layers in most Antarctic ice cores are thin and difficult to interpret. At the WAIS Divide site, however, it snows a lot, and has done so for some time. That provides nice, thick layers. The team's members think that they should be able to count back through 40,000 of these layers, and thus look back 40 millennia.

The reason for doing so is that each of those layers contains bubbles of air trapped when the snow that formed them fell. The WAIS Divide core should thus provide the most accurate record to date of atmospheric carbon dioxide, a greenhouse gas that lies at the heart of climate change. Hitherto, the best records have come mostly from Greenland, but according to Richard Alley, a climatologist at Pennsylvania State University who works on the WAIS Divide project, cores from Greenland contain too much dust to provide a truly accurate record. The dust includes chemicals that can react with the trapped gases, changing their composition. Antarctic ice, which is less dusty, does not suffer from this problem.

The high-quality dating of the WAIS Divide core will thus allow climatologists to work out whether past increases in carbon dioxide led to rises in temperature or merely followed them—a crucial distinction. It will also be possible to correlate this core with the Greenland cores. That will give better insight into how changes in the Arctic and Antarctic climates are related. At the moment no one knows whether the north leads the south, the south the north, or both change simultaneously.

Off the coast near another of America's Antarctic bases, McMurdo Station, the Antarctic Geological Drill (ANDRILL) team have just completed their first field season. ANDRILL is drilling not through ice but through sediment. This first season has retrieved a 1,284-metre-long core of the stuff from beneath McMurdo Sound. Ice cores, by definition, cannot contain information from before the ice formed; in practice, that means tens of thousands of years at most. Sediments, by contrast, can go back millions of years. The ANDRILL team thinks the core they took this year reaches back 6m or 7m years. Next year they plan to drill one that should go back 15m years.

By studying the chemistry of the sediments and looking at the sorts of fossils they contain, the ANDRILL team should be able to reconstruct the temperature of the waters surrounding Antarctica back to a time before the current series of ice ages started. They will also be able to look at the advance and retreat of the ice sheets themselves. Advancing ice brings lots of crud. That results in sediment made mainly of ground-up rock. When the sheets are gone, a larger proportion of the sediment consists of fossils, particularly those of organisms called diatoms.

So far, it looks as if the ice sheets have advanced and retreated more than 50 times over the past 5m years. Understanding how this back-and-forth movement relates to subtle changes in past temperatures may provide important clues to the future. Together, the ice sheets of Antarctica and Greenland hold enough water to raise the sea level by 70 metres. No one is suggesting that all this water is likely to be released in the near future, but there is evidence that sea levels have risen by up to 20 metres in less than 500 years during past episodes of change in the Earth's climate.

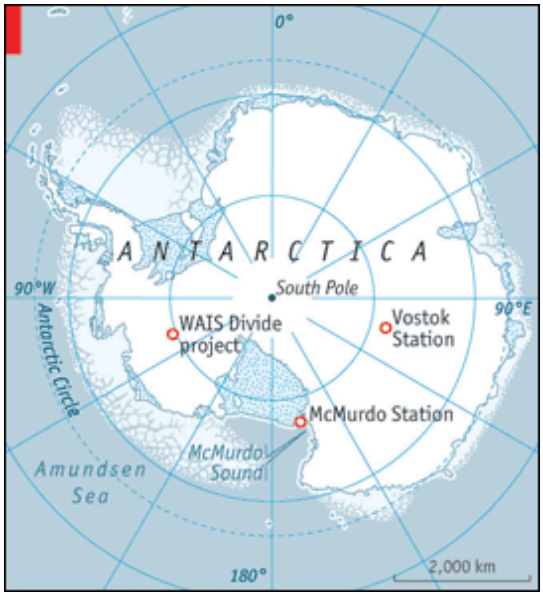
Present indicative

Surprisingly, finding out what is happening to the ice sheets at the moment is almost as hard as looking at their past. Whether a sheet is growing or shrinking depends on whether it picks up more snow in the winter than it loses to calving icebergs and meltwater in the summer. Here, a bird's-eye view can help.

What is happening to the ice sheets now is therefore the province of satellite measurements. Over the past decade such measurements, which allow for the monitoring of entire ice sheets all at one time, have transformed efforts to understand how ice sheets change with the seasons. Researchers can bounce radio waves or lasers off the ice surface to measure a glacier's height and how fast it is moving. Indeed, they can do more. The satellites of GRACE (the Gravity Recovery and Climate Experiment) allow their operators to measure minute changes in the Earth's gravity produced by the thickening and thinning of ice sheets.

These measurements have already shown that different things are going on in different places. In eastern Antarctica increased snowfall is causing the ice sheet to thicken at the moment. The west Antarctic ice sheet, however, is thinning at between 10cm and one metre a year.

The satellites also show that this thinning in the west is accompanied by faster movement of the glaciers. One reason may be that much of the western ice sheet lies on bedrock that is below sea level. That makes it easier for seawater to get underneath it and lubricate its movement. And it seems to be happening fast. Until recently, glaciologists had assumed it would take decades for coastal changes to make their way deep inland. In fact, measurements from Greenland have shown they can do so in a matter of years.



All of which goes to show how fields of research that once looked esoteric can become relevant with astonishing speed. And, scientists being scientists, the esoteric is also part of the curriculum. In particular, two projects for which the continent is uniquely suited reach out beyond the confines of the Earth. Astrophysicists are using Antarctica to explore some of the earliest and most energetic events in the universe, and glaciologists and biologists are studying vast lakes under the ice that they hope will show how life evolves in the sort of conditions more commonly found elsewhere in the solar system.

Through thin and thick

For those astronomers who want to observe the cosmic microwave background (CMB)—the remnant radiation that has been travelling through the universe since shortly after the Big Bang itself—the South Pole is an unusually inviting place. The Pole's high altitude (2.8km above sea level) means the atmosphere is thin there. Its cold air keeps the amount of water vapour low (water absorbs microwaves, which is why food gets hot in a microwave oven). And the atmosphere at the Pole is extremely stable, which minimises the amount of twinkling—a phenomenon that affects the CMB as much as it does stars. Over the years, therefore, a long string of experiments designed to look at the microwave background have been brought to the Pole. The latest of these, the South Pole Telescope (SPT), opened for business at the end of January.

The SPT is designed to use the microwave background to search for a mysterious ingredient of the universe known as dark energy. No one knows what dark energy is. The reason physicists believe it exists is that they need something to explain why the expansion of the universe that started with the Big Bang is speeding up, rather than slowing down as might, naively, be expected.

The SPT team plan to search for signs of dark energy by measuring the distribution of groups of galaxies farther back in time than has been done so far. The formation of galaxies and clusters of galaxies in the early universe is extremely sensitive to how much dark energy was around then, and to how fast the universe was expanding. By measuring accurately how such structures formed, cosmologists should be able to work out the influence and properties of dark energy.

To see so far back in time, though, requires a trick. The SPT researchers will use something known as the Sunyaev-Zeldovich effect. When photons that make up the CMB pass through regions of hot gas in a cluster of galaxies, they receive kicks, giving them a bit more energy. By measuring the energy of the CMB with precision, in order to detect the influence of this effect, the team hope to be able to tell where in the sky ancient galaxy clusters are found, and thus how they are distributed.

Microwaves are not the only things coming from space that are best observed at the South Pole. While the SPT is looking up at the sky there, another group of astronomers are trying to observe the universe by looking straight down. The IceCube experiment is building a scientific instrument out of the polar ice sheet itself. The aim is to detect neutrinos—ghostly subatomic particles that interact only rarely with normal matter.

When a neutrino does interact with a piece of normal matter, the result is a stream of other particles. Some of these give off light—and it is this light that IceCube is designed to detect. IceCube's drillers are using a high-pressure jet of hot water to melt a series of 2.5km-deep holes in the ice. When each hole is finished, a 1km-long array of light detectors is lowered into it and the hole is allowed to refreeze. The aim is to embed a cubic kilometre of ice with sensors.

When the array is complete, it will be able to indicate which direction a neutrino has come from by the

pattern of light arriving at the different detectors. That will enable it to answer the question of what creates high-energy neutrinos (low-energy ones come from the sun, and are of no interest to IceCube's scientists). It may also help to answer questions about sub-atomic physics that are beyond the capabilities of today's particle accelerators.

Still waters run deep

Another reason to look beneath your feet in Antarctica is that you might be standing on a lake. More than 140 subglacial lakes of varying sizes have been discovered there so far. The largest and most famous is Lake Vostok, which is located 4km below the ice at Russia's Vostok Station. It is 250km long and 50km wide—a little smaller than Lake Ontario—and it has been sealed from the surface in complete darkness and cold for about 15m years.

Subglacial lakes such as Vostok are interesting in their own right, of course. Their isolation means that unusual forms of life may have evolved in them. But what really excites researchers is the thought that similar lakes may exist under the ice of Jupiter's frozen moon, Europa. If places such as Lake Vostok turn out to harbour life, well, who knows?

Several factors allow lakes to form kilometres below an ice sheet. One is that ice melts more easily at the high pressures found at such depths. Another is that ice is a good insulator. The ice sheet thus protects the bottom layers from cold surface air and traps heat produced deep inside the Earth. In the right conditions, then, the bottom layers of an ice sheet can melt and pool in depressions in the bedrock, forming large bodies of water.

Although researchers have, in the past, detected microbes in samples from the bottom of the ice sheet over the surface of the lake, they are not quite sure that these bacteria were not contaminants taken down with the drillhead. It was the risk of such contamination that persuaded a Russian team drilling towards Lake Vostok to suspend operations in 1998. The team has, however, started up again and recently announced that they plan to breach the lake during the IPY. After puncturing Vostok and allowing some of its pressurised water to flow back up into the borehole, they plan to let it freeze and then bring it up to the surface.

Researchers from other countries have been critical of this plan and think smaller lakes that are easier to characterise should be studied before compromising the integrity of the granddaddy of them all. A British-led consortium, for instance, is planning to study Lake Ellsworth, a 10km-long body of water in western Antarctica. Later this year the team will begin detailed geophysical studies of the lake and its surroundings, using sonar. In addition, they will design a probe to study any life that might happen to be in the lake. The idea is to drill through the ice with hot water and then deploy the probe, which would melt through the last bit of ice to retrieve samples. If things go according to plan, they will actually breach the lake in 2012.

Esoteric? Certainly. And in truth, the likelihood of there being life on Europa is slim. But few would have thought 20 years ago that Antarctica's ice might hold the key to the future of life on Earth.

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Antarctic history and geography

The last wilderness

Mar 29th 2007 | THE SOUTH POLE
From The Economist print edition

Antarctica is a geographical and political anomaly

AT 14m square kilometres (5m square miles), Antarctica is not that large as continents go; Eurasia, Africa, North and South America all trump it. Only Australia is smaller. In most other ways, though, it is a record-breaker. Some 98% of its surface is covered by ice. This ice sheet represents roughly 90% of the world's ice, and at its thickest point is piled up to an altitude of more than 4km (2½ miles), making Antarctica the highest continent on Earth. With winds that can exceed 300kph, average winter temperatures of -40°C, and (despite the ice) a dearth of precipitation, it is the windiest, coldest and driest continent too. It is also the emptiest. A mere 1,000 people work there all year round, with a further 3,000 joining them during the summer.

In addition to its geographical extremes, Antarctica is also a political curiosity. Despite the coloured pie-slices found on many maps, no country owns any part of the continent. In 1958, after the completion of the International Geophysical Year (IGY), which saw the establishment of many permanent bases, America's president, Dwight Eisenhower, invited the other participants in the IGY to come to an arrangement to ensure that “the vast uninhabited wastes of Antarctica shall be used only for peaceful purposes”.

What resulted the following year was the Antarctic Treaty. Its 45 signatories have agreed to suspend territorial claims and disputes, to forgo all military and mining activity, to protect the Antarctic environment and to preserve the continent as “a natural reserve, devoted to peace and to science”.

So far, no minerals that have been discovered would be worth the extraction costs. And the few tourists who come are reasonably well behaved, usually taking their litter home with them. Whether the treaty would stand up to serious commercial pressure remains to be seen. But at the moment, Antarctica remains a pristine scientific playground.

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Investing in distress

The vultures take wing

Mar 29th 2007 | NEW YORK
From The Economist print edition

Satoshi Kambayashi

Banks and hedge funds get ready to capitalise on corporate misery

SOME of them look back fondly on the bursting of the dotcom bubble; others feel nostalgic about the 1990s recession. Distressed-debt traders, who buy bonds no one else will touch, and turnaround specialists, who pull companies back from the brink, operate in a topsy-turvy world, where bad times are good and corporate wreckage yields rich rewards.

The pickings have been slimmer for vultures over the past three years, however. Corporate profits have proved annoyingly robust and plentiful credit has made refinancing sickeningly easy (see article). Except for the odd scrap of rotting meat (mainly among car-parts makers and airlines) they have had little to sink their talons into. This has led to “category creep”. Traditional distress funds have drifted reluctantly into risky, but still solvent, junk bonds and high-yield loans to keep business ticking along. Now thanks to the subprime-mortgage woes, hopes are rising that trouble is finally on its way, bringing with it outsized returns for those who trade in corporate casualties.

Investment banks, readying themselves for the expected downturn, have been strengthening their distressed-securities groups. Goldman Sachs is on the lookout for subprime bargains and recently lured a lieutenant of Carl Icahn, an ageing raider, to its “special situations” group. The investment bank, wary of the “vulture” tag, says it merely wants to ensure it can make money at every stage of the business cycle. Barclays has poached an entire team from Oaktree Capital Management, which manages distressed-securities funds. Oaktree itself is raising a new $3 billion fund.

The skills required to resurrect a fallen firm are also in fresh demand. One indication of this is the membership roll of America's Turnaround Management Association, which has swollen by some 1,000 since 2004.

Behind this cyclical burst of activity is a deeper trend. Distress, once the preserve of specialists, is now attracting the mainstream. Edward Altman, a finance professor, counts 170 institutions that invest primarily in distress, more than ever before, with an estimated $300 billion at their disposal. The field has benefited from growing interest in “alternative” investing (which also includes hedge funds, private equity and commodities). Punting on clapped-out securities is now on many a hedge fund's list of favoured strategies.

Vultures hope that feast will follow the recent famine. They believe the very lack of distress lately will mean the carrion is more plentiful when times eventually change. More junk bonds are being issued than ever before, more risky loans are being offered. And remarkably, this lending free-for-all continues despite a sharp drop in credit ratings, says Martin Fridson, editor of the indispensable *Distressed Debt Investor*. No one seems bothered that 17% of senior, unsecured junk-bond issues are on the lowest possible rung, compared with 2% in 1990.

Mr Altman, who has spent many years tracking financial junk, says he has never seen anything like today's market. His diagnosis: “almost insane”. The “glut” will surely end dramatically, he says. Mr Fridson reckons a recession could cause defaults to jump to unprecedented levels.

That is when vultures come into their own. When sentiment turns after a long bull run, the market usually overreacts. It loses all sense of distinction between basket cases and risky but viable firms. The distress can also trigger forced sales of potentially valuable assets. Those gutsy enough to swoop can enjoy rich pickings. For example, buyers of some troubled American power companies have seen triple-digit gains as shares have recovered, boosted by mergers. Some investors in struggling cable firms have also done superbly—though others, who bought well before prices hit bottom, have lost money.

New, and sometimes nasty

The next wave of distress will be unlike the last in two respects. First, commercial banks no longer dominate the process. According to Standard & Poor's, a rating agency, non-banks such as hedge funds now make roughly half of all high-yielding leveraged loans and hold the lion's share of the secondary market.

Indeed for many distressed borrowers, hedge funds have become the last, best hope of salvation. Accredited, a troubled subprime lender, was recently propped up by a $200m loan from San Francisco-based Farallon after banks withdrew support. The hedge fund charged a credit-card-like rate of interest. It also secured the right for ten years to buy over 3m Accredited shares for $10 each, a deal that will bring it huge returns if the lender pulls through. This is a variation on the “loan-to-own” strategy now popular among hedge funds: credit is extended in the hope that it can be converted to equity when the company fails to recover, allowing the lender-turned-owner to restructure the firm thoroughly.

Though hedge funds offer quicker, more creative solutions than banks did in the past, their tactics can upset other creditors. They have also ruffled the feathers of the private-equity firms that sponsor leveraged takeovers. Fearful that activist funds will make trouble in a downturn, the buy-out shops have started asking their banks to insert legal clauses that prevent their debt from being sold into such hands.

The second change is likely to cause conflict too. Borrowers' capital structures—the various layers of debt and equity, each with different rights in the event of default—are now more complex. It is less clear than it was who is entitled to what.

That is largely thanks to the explosion of “second-lien” lending. These loans are secured against a company's assets, but with fewer rights than more senior loans. Trouble is, these rights are not always clear. Second-lien lenders, who provided 75% more money in 2006 than the year before, have begun to exploit this fuzziness to challenge those above them in the pecking order. “We could see some almighty bust-ups when the market turns and everyone's less understanding,” says Mo Meghji, who runs a restructuring boutique.

Vexing as they may be, these extra layers of debt may provide golden opportunities for bottom-fishers once credit markets tighten and refinancing becomes harder. Daniel Arbess of Xerion Capital Partners thinks loan-laden American manufacturers look particularly vulnerable. If interest rates rise, they will only be able to refinance their debt when it falls due if they secure ratings upgrades by making fundamental improvements in their business. But the opposite is more likely, he argues, as such firms continue to feel the full force of competition from low-cost countries.

Which leaves just one question: what might trigger the next crunch? Nobody knows, but Mr Arbess suggests it may arrive disguised as good news. The turning point of the last cycle, he believes, was the merger of AOL and Time Warner. That deal exposed the kind of faulty logic that allows a money-losing internet firm to get the better of a profitable media giant. So don't hope for a $100 billion leveraged buy-out—unless you're a vulture.

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Buttonwood

Buddy, just hand over that dime

Mar 29th 2007
From The Economist print edition

Corporate borrowers are flexing their muscles

NEITHER a borrower nor a lender be, but if you have to choose, be a corporate debtor. America's mortgage banks may now be discovering the dangers of reckless loan-writing. But other lenders are still chasing corporate debt like greyhounds after a rabbit.

Despite the subprime meltdown, creditors have not seriously restricted the amount they are willing to lend to companies or much increased the interest rates they demand. According to Standard & Poor's (S&P), a rating agency, $46.5 billion of European bonds and loans had been brought to market by the end of February, only a shade less than the $48.3 billion raised in the same period of 2006.

Meanwhile, Moody's, its rival, says the spread (or excess interest rate) on high-yield corporate credit has risen by only around a third of a percentage point from its February 22nd low and is still below its 12-month average. Given that government-bond yields have fallen over the same period, it seems unlikely that most companies are paying any more to borrow money than they were a month ago, before the American mortgage crisis started to generate adverse headlines.

Indeed, there are plenty of signs that borrowers are the masters, not the servants, in this relationship. TDC, a Danish telecoms group, recently announced it was cutting the interest rate it agreed to pay to lenders just 12 months ago. And Europe is now seeing the introduction of “covenant-lite” loans, which offer little protection to lenders if the borrower's financial position deteriorates.

In America, such loans account for 23% of the market by volume so far this year, according to S&P. And Neal Schweitzer of Moody's says even second-lien loans (which give a lesser claim to a company's assets than prior loans) are increasingly covenant-lite.

Lenders have traditionally insisted on covenants so they can get their money back before disaster strikes. They might, for example, insist that interest payments should not rise above a certain proportion of the firm's earnings; breach of the covenant would require renegotiation or repayment of the debt.

Companies understandably do their best to avoid such undertakings. Covenants can severely reduce a group's flexibility, forcing it to come up with extra money when its financial position is weakening. In some cases, they can trigger a collapse.

The first European covenant-lite deal was arranged for a Dutch yellow-pages publisher, VNU World Directories, a company backed by two private-equity groups. Private-equity houses, well aware that times are good at the moment, are keen to lock in the most flexible financing arrangements they can. The last thing they want is for a covenant to be triggered at some future date, requiring them to take a hit to their equity investment.

But why should lenders grant such flexibility? Some may reckon that covenants are no longer necessary. First, they can now sell loans in the secondary market, an option that did not exist 20 years ago. Second, as TDC showed, borrowers can simply refinance their deals if they no longer like them. A covenant may thus be as much use as a chocolate teapot.

A further reason may be the nature of the investor. The biggest buyers of high-yield (or leveraged) loans tend to be the managers of collateralised loan obligations, or CLOs. Such managers bundle together a group of loans, then slice them up, according to their riskiness, and sell them to investors. Once a CLO manager has raised its capital, it needs to put that money to work quickly to earn higher interest. That makes the manager an eager loan-buyer, forced to accept whatever terms the borrowers offer.

Loan securitisation disperses risk through the financial system and reduces the chances of a banking collapse. But it does have its downside, as has already been seen with American mortgages. In the old days, a bank was stuck with its loans and needed to worry about the long-term creditworthiness of the borrower. Nowadays, a bank will pocket an underwriting fee and get the loan off its books within weeks. In their eagerness to get deals done, argues Paul Watters of S&P, banks and investors do not differentiate sufficiently between good deals and bad.

Investors are naturally blasé because they have suffered so few problems in the debt markets in recent years. Defaults have been remarkably rare. With the interest rate on safe havens such as Treasury bonds at low levels, there has been plenty of incentive to take risks. But the credit cycle will turn eventually. When it does, investors, unprotected by covenants, may be left feeling wallet-lite.

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Stock exchanges

Browsing the bourses

Mar 29th 2007 | HONG KONG
From The Economist print edition

Companies scour global exchanges to find a better price for their shares

BASED in Toronto, Golden China Resources is a mining company with the kind of scary but alluring profile you might expect for a firm that goes prospecting for gold. Established only three years ago, it is still losing money. But it boasts an intriguing technology using bacteria in the refining process, promising rights in China and what appears to be a growing inventory of established reserves.

With bullion prices rising and economic doubts gathering, times should be good for gold producers. But on the Toronto Stock Exchange, Golden China has lost its lustre. Its share price has fallen by half since early 2006. In response, the company has embarked on a different kind of prospecting. It is studying how different bourses around the world value companies like itself. Its findings are a challenge to anyone who believes financial markets are consistent or rational.

Take, for example, the market's view of “in situ” ounces, meaning gold that is in the ground. According to an outside analysis, Canadian exploration companies are valued at $75 an ounce on average. As refined gold now sells for more than $650 an ounce, this leaves some margin for processing and mining risk.

If the deposits controlled by these Canadian companies are in China, the valuation slips to $43 an ounce. This may reflect worries that China's methods of verifying potential assets are less stringent. It may also be a consequence of more general fears about property rights in China.

That would be the end of the story were it not for an odd detail. Golden China then went on to look at the valuation of gold producers listed in Hong Kong or on the Chinese mainland. The results were striking: they were valued at $180-240 an ounce. Sino Gold, an Australian company which on March 16th made a secondary listing on the Hong Kong exchange, is priced at about $190 an ounce.

There may be some simple explanations for these big disparities. For example, the Chinese companies in the study all turn a profit. But investors in gold exploration probably care more about the treasure to be unearthed than the trickle of income from ongoing sales.

In fact, Golden China has hit on a broader seam of market discrepancies: the value of a share often depends on where the stock is floated. The most glaring examples are provided by Hong Kong-listed firms that also list in Shanghai, where they almost always get a better price for their shares. No wonder Hong Kong feels threatened by the migration of listings to its mainland rival.

More subtly, global exchanges disagree about the value they put on everything from food companies to banks, even after taking account of differences in a firm's local prospects. Perhaps investors feel better protected and better informed by some bourses rather than others. Exchanges often claim that stiff auditing and disclosure standards add a premium to the shares listed on them. But strangely, valuations right now seem highest in murky stockmarkets like China's.

Bourses may also attract their own distinctive base of investors, interested in some sectors more than others. America's markets attract the technophiles, China's lure the gold bugs. Like retail arcades, exchanges each seem to draw their own tribe of customers who know what they want, pay a premium for it and ignore bargains that would fetch much higher prices elsewhere. Golden China is like an electronics store trying to sell its wares (cheaply) on London's Savile Row rather than Tokyo's Akihabara market.

To profit from such disparities, enterprising investors have long combed the world's bourses looking for cheap stocks. It makes perfect sense for companies to do the reverse: scour the world for markets that will pay high prices for their shares, thus reducing the cost of their capital.

Unfortunately, bagging a higher valuation is not always as easy as listing on a different exchange. For example, lots of international companies coughed up for a Tokyo listing in the late 1980s, hoping to share in the euphoric multiples then applied to Japanese firms. But they were disappointed; their share prices remained tied to those back home.

Golden China is considering a more dramatic migration. Already most of its 700 employees work in China. The company's executives are thinking about joining them, and shifting their primary listing from Toronto to Hong Kong in the process. At the moment, they reckon the company's $50m market value plus its debt is worth only as much as its plant and outside investments, giving it no credit for its 1.5m ounces of gold. If more appreciative customers for their shares exist elsewhere, why not bring the company to them? It would appear the only rational response to an irrational market.

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The Australian economy

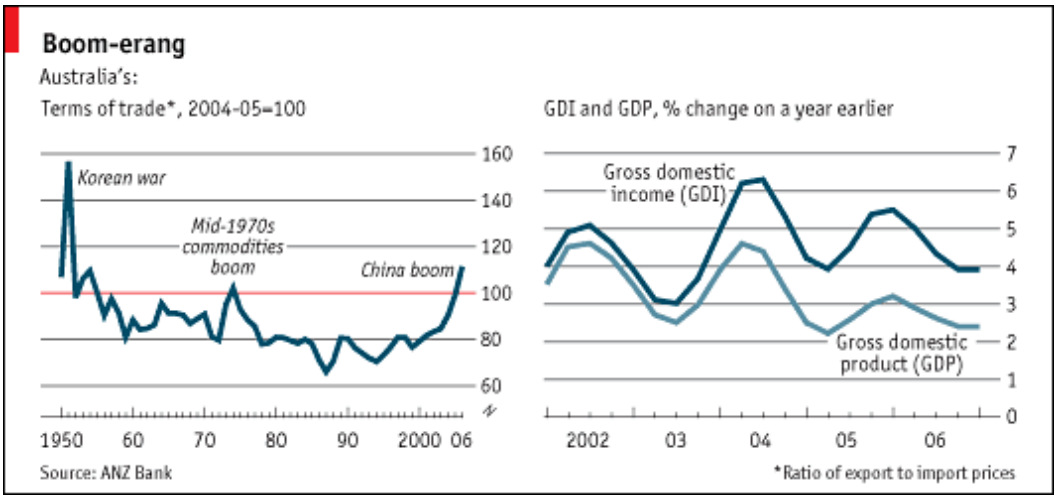
Downwonder

Mar 29th 2007 | SYDNEY
From The Economist print edition

The "lucky country" may not be so for too much longer

AUSTRALIA may lie towards the bottom of the map, but its economy has been top of most rankings of developed countries in recent years. Despite the deflation of its housing bubble and a severe drought, the kangaroo economy keeps bouncing along. It is now in its 16th year of unbroken expansion, during which time it has grown at an average annual rate of 3.6%, well above the OECD average of 2.5%.

This resilience is partly its just deserts. The government has kept its budget in surplus, the central bank has largely kept inflation in check, and structural reforms have helped the economy handle shocks. But Australia also owes a lot to good luck. As a large commodity producer, it has been blessed by a surge in the prices of its exports thanks to booming global demand, notably from China. The country's terms of trade (the price of its exports divided by its imports) have leapt by 30% over the past three years to their highest level for over 50 years (see left-hand chart).



The timing could not have been better. The commodities boom has helped to cushion the economy just as the housing sector has stumbled. Without it, home prices and consumer spending would have fallen by much more. In New South Wales, one of the states least touched by mining, average home prices are 10% below their 2004 peak; in parts of Sydney they fell by 20%. But nationwide house-price inflation was propped up by a 40% surge in Perth last year, thanks to the minerals boom.

Indeed, Australia's GDP understates the economic benefits of the commodities boom. It measures the volume of goods and services produced in Australia, not the amount that can be purchased there. But thanks to its improved terms of trade, Australia gets more for its wares than it did. Its real gross domestic income has grown by an average of 4.5% over the past four years (see right-hand chart).

Despite the enormous gain in its terms of trade, Australia still runs a huge current-account deficit, close to 6% of GDP in the fourth quarter. Its export volumes have grown by only 1.5% a year since 2000, down from an annual average of 8% in the 1990s. Farm exports have been hurt by drought; manufactures by the rise in the exchange rate to a ten-year high. But the biggest disappointment has been in minerals. Thanks to past underinvestment, Australia cannot get as much stuff out of the ground or onto ships as it would like. Coal, for example, is Australia's biggest export, accounting for one-fifth of its foreign earnings. But its sales are held back by the lack of port capacity. Outside the port of Newcastle, a record 70 ships are waiting to load coal bound for Asia.

Few Australian economists lose sleep over its current account any more. The country has run a deficit in all but one of the past 50 years. Many people argue the government has done all it can to reduce the gap, running a budget surplus and encouraging personal saving, to no great effect. The deficit therefore reflects the private decisions of “consenting adults”.

But the government cannot wash its hands of the deficit quite so easily. Saul Eslake, the chief economist at ANZ Bank, accuses the government of wasting the windfall revenue from the commodities boom. Most of it has been squandered on vote-seeking tax cuts, he calculates, not on bolstering the economy's growth prospects. More spending on infrastructure and education could have relieved bottlenecks, and a bigger budget surplus would have shielded the economy against a future downturn in prices.

Instead Australia's economy has been stretched taut. It is short of workers as well as infrastructure: at 4.6%, unemployment is close to a 32-year low (down from almost 11% in 1992) and inflation is above the Reserve Bank's target of 2-3%. Some analysts expect the central bank to lift its interest rate from 6.25% on April 4th.

Most worrying, the economy's speed limit has fallen. Productivity growth has slowed to an annual rate of only 1.2% since 2000, from 2.4% in the 1990s. In the long run, a nation's standard of living depends on its productivity. The commodity boom has so far concealed the slowdown, but even if prices stay high, further gains on this scale seem unlikely. Without further policy reform, the Australian kangaroo risks turning into a sleepy koala.

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Euro payments

Untangling Europe's wires

Mar 29th 2007 | FRANKFURT
From The Economist print edition

Europe makes progress on a common payments system

THE 13 members of the euro area may share the same money. But payments in this common currency cannot circulate fluently between them. Ideally a wire transfer, card payment or direct debit from Berlin to Barcelona should cost no more time, sweat or money than one from Berlin to Bielefeld. In fact, problems of financial translation abound.

For three years after the introduction of the euro, banks faced little pressure to reduce the cost to customers of bank transfers from one member to another. Then in 2002 a European Union regulation forced them to charge no more for cross-border transfers within the euro area of up to €12,500 than they did for domestic ones. Their average fee for a transfer of €100 fell dramatically from €23.60 in 2001 to an average of just €2.46. In five countries the charge fell to less than a euro.

But the plumbing between bank payment systems and clearing houses remains fragmented. Welding it together is the job of two mighty initiatives to create a true single market. The technical framework, known as the Single Euro Payments Area (SEPA), is being developed by banks and clearing houses. The legal framework meanwhile is being built around another EU directive.

On March 27th the European Council approved the “general approach” of this directive, which includes some things the banks will not like. It exposes them to competition from non-banks, and also sets a deadline of 2012 by which all payments in the euro zone must take no longer than one business day to the next.

As the officials move forward, the banks are running ahead. The European Payments Council, a bank initiative, has promised to give customers apparently seamless credit transfers and card payments across the euro zone from the start of 2008. It would also have included direct debits in the package, allowing a company or utility in one euro country to draw funds directly from a customer's bank account in another. But the legal framework is not yet ready. “We need legal certainty,” says Gerard Hartsink, chairman of the payments council.

The apparent seamlessness of SEPA is cosmetic, however, because there is still fierce competition between national clearing houses over what the pan-European plumbing should finally look like. The one Europe-wide solution already in existence, EBA Clearing, is gathering momentum—handling about 250,000 transactions a day—but it reaches only those banks that are connected to it.

In the long run, this grand project should save banks billions, if only because their customers will feel less need to carry hard cash. So far, however, they have incurred only costs not benefits, since cross-border euro transactions make up only around 2% of their payment volume. They are also worried that a new kind of rival, such as mobile-phone operators or web-based portals, may be able to operate more cheaply and with less supervision. But the EU's proposed directive does not leave the field entirely unfenced. Payment operators will have to set aside a minimum amount of capital, ranging from €20,000 to a percentage of their payment volume.

The hottest competition banks will face is more likely to come from each other, as payment barriers are lifted not only among euro members, but also among other countries like Britain and Switzerland, which have banks that are part of the SEPA project. Europe has already seen the merging of 13 of its currencies. The same may yet happen to another one or two of its banks.

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Pensions

Retire to be rehired

Mar 29th 2007 | SEATTLE
From The Economist print edition

Why not draw a pension and a salary at the same time?

THERE is more to retirement than grandchildren and cruises, at least for some Arizona teachers. When they hit retirement age, hundreds knock at the door of a private company called SmartSchoolsPlus—and go right back to teaching. “We contract them to their same position, or one to which they are qualified,” explains Sandee McClelland, who co-owns the firm. They can then collect both their pension and a salary.

Such “double-dipping”, as critics call it, causes spasms of outrage. Chicago's mayor, Richard Daley, got flak last year for allowing his fire commissioner to retire, then rehiring him as the city's emergency chief (his pension and salary combined trumped the mayor's earnings). A Kentucky legislator, worried that public officials sometimes “retire” right after being re-elected and then promptly unretire to take up their new office, keeps introducing bills to clamp down. Controversy has also surfaced in Ohio and Utah. In Arizona, teachers are supposed to wait a year before returning to their same jobs. They can get around this via private firms like SmartSchoolsPlus. But a local newspaper has called for the state legislature to close the loophole.

Despite such efforts, double-dipping is becoming more common, says Ron Snell of the National Conference of State Legislatures. Most states set out to prohibit it, but during the late 1990s they were forced to fudge things because of a shortage of trained teachers. Since 2000, he says, these exceptions have been broadened to include other public employees, as states' workforces age. Kansas, for example, last year raised the amount retirees can earn with their former employer from $15,000 to $20,000. Double-dippers save the states money because they do not have to be trained. Moreover, state employers often have early pensionable ages—sometimes as low as 55—so the newly retired still have plenty of vigour they might otherwise lavish on the private sector.

Cases in which retirees can return to work with their full salary grab the headlines. But in most states, as in Kansas, such deep second dips are forbidden. In New York, retired public employees can go back to work almost immediately, but their salaries are limited to $30,000. California's public employees may return to work while drawing a pension from CalPERS, but only part-time (no more than 960 hours a year) and only if the employer needs their special skills. In America's private sector, last year's pension-reform act now allows those in defined-benefit plans to make a phased retirement, taking “in-service distributions” from the age of 62.

The only question is why an ageing society, which will soon have too few workers supporting too many pensioners, should care if some people play both roles at once. As long as they earn their salary, adding more to the economy than they take from it, double-dippers are helping to solve the demographic problem. Delaying their retirement by raising the pensionable age might make sense. But to ban them and berate them seems doubly dippy.

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Economics focus

Silent orchestration

Mar 29th 2007
From The Economist print edition

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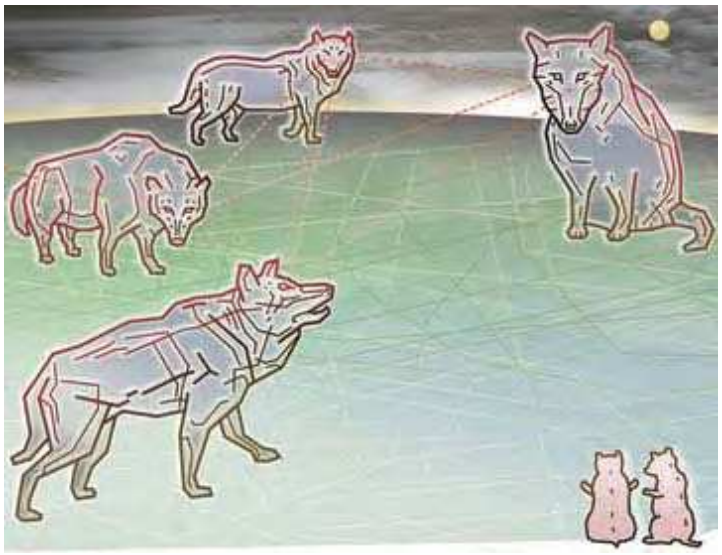

Can record companies act in concert, even without agreeing to do so?

LAST month Ian Gillan, lead singer with Deep Purple, an elderly heavy-metal band, made an angry attack on the group's record label, Sony BMG. His tirade against the company's "opportunistic fat cats" was provoked by the CD release of a 1993 live performance, which the rock star claimed was the band's "worst gig ever". On March 1st, two days after Mr Gillan's outburst, the European Commission announced its own re-release, saying it would look again at the merger that created Sony BMG in 2004. Europe's anti-trust authorities have until July 2nd to decide whether the merger should now be picked apart.

Before the merger, there were five record "majors"—Universal, Sony, Bertelsmann, Warner and EMI—which together accounted for 80-85% of recorded music sales in western Europe. Once Sony and Bertelsmann fused their record subsidiaries into Sony BMG, the merged entity had an average 20-25% share in national markets. This is not enough clout on its own to trouble the trustbusters: in fact Sony BMG has a smaller European presence than Universal, the leading record company. At issue is whether the four majors together might now reach an unspoken understanding about prices.

The evidence is not yet in. But what about the theory? Cartels—in which pacts among companies are formally agreed—are notoriously difficult to sustain, not to mention illegal in most instances. Witness the tensions that dog OPEC, the cartel of oil-producing countries. A tacit understanding faces even bigger challenges. Suppliers must co-ordinate without negotiation on a mutually profitable price, then stop anybody undercutting it. In principle, industry consolidation makes it easier for firms to synchronise their actions. A merger that turns five big firms into four, for example, cuts their bilateral links from ten to six.

Co-ordinating a price is one thing; sticking to it is another. Companies face the same dilemma that has undone countless hypothetical prisoners in economics textbooks. There is an incentive to collude with other suppliers to boost prices, just as two prisoners have good reason to keep mum about their crime. But there is also a temptation to renege to gain sales, much as one prisoner might end up ratting on another.

Yet in the right circumstances a tacit understanding can endure. Those among equal partners have the best chance of lasting. A rough parity in market shares should mean that the benefits of high prices are split evenly, minimising the risk that one firm breaks ranks. Firms with similar costs and capacity will also

share a common view of what the “right” price is. If, on the other hand, one firm has lots of spare capacity or lower costs than its competitors, it will find undercutting them hard to resist.

Symmetry helps, but the temptation to cheat will be too great if rival firms cannot monitor each other's behaviour and respond quickly if one of them reneges. The obvious riposte to cheating is to abandon price co-ordination altogether. But a cleverer response is to suspend it temporarily—introducing “promotional” prices on selected goods, for example—as a prelude to a bloodier price war should the treachery continue. If the short-term gains from cheating are small relative to the long-term losses from lower industry prices, the threat of prompt retaliation may be enough to sustain tacit collusion.

Markets in fast-moving and relatively cheap goods are easiest to police. Where transactions are “lumpy”, as in the commercial aircraft industry, the short-term profits from undercutting rivals are too big to resist.

Even if an understanding can be co-ordinated and policed, it could still be broken by outside forces, such as smaller competitors or new entrants. That is why the consolidation of Europe's package-holiday industry might not ring too many alarm bells in Brussels. The number of big firms is shrinking from four to two, but unless the commission is convinced that one of them could dominate the market on its own, it is likely to tread carefully.

In 1999 the commission blocked a merger between two of the four big British tour operators, Airtours (now MyTravel) and First Choice, only to see the decision annulled by the courts. It had argued that the big firms might arrive at an implicit understanding to restrict industry supply. The courts disagreed, ruling that it is difficult to collude tacitly on something as complex and opaque as tourism capacity, harder still to discipline cheating, and impossible to prevent smaller competitors or new entrants from expanding supply and spoiling the incumbents' game.

It's hard to sing in harmony

What about the record industry? Wholesale record prices are highly visible—a few prices in company catalogues account for the bulk of sales—which suggests that firms could plausibly co-ordinate on an agreed tariff. Sales turnover is rapid, which means a cheat cannot make much money before its rivals have a chance to retaliate. The main suppliers also interact in a variety of markets and on joint ventures like compilations, so there are ample opportunities to dole out selective punishment.

But tacit collusion may still be beyond them. For one thing, the prices they publish are not always the ones they are paid. Record companies offer retailers targeted discounts in return for shelf space and marketing resources. And although one CD looks much like another, music is a gloriously “differentiated” product, so firms cannot infer what their rivals are doing from their own sales data. If, say, EMI's market share slumps, is it because a competitor is cutting prices or because the new album from its biggest star is no good?

The commission initially cleared the Sony-Bertelsmann merger on the basis that prices were not fully observable. It was forced by the courts to look at it again. Sony BMG has already lost one battle, forced to recall the offending Deep Purple album. It won't want to lose another.

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The Marjorie Deane internship

Mar 29th 2007
From The Economist print edition

Applications are invited for the 2007 Marjorie Deane internship. This award, financed by the Marjorie Deane Foundation, is designed to provide work experience for a promising journalist or would-be journalist, who will spend three months of the summer at *The Economist*, writing about economics and finance. Applicants may also be considered, if they wish, for an internship of similar duration at *CFO Europe*, a sister publication of *The Economist*. Applicants should send a letter introducing themselves, with an original article of no more than 650 words that they think would be suitable for publication in this section of *The Economist*. Applications should be sent by e-mail to deaneintern@economist.com or posted to the Business Affairs Editor (Deane internship), *The Economist*, 25 St James's Street, London, SW1A 1HG. They must reach us by April 13th.

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Evolution

Hidden from view

Mar 29th 2007
From The Economist print edition

National History Museum

Rewriting the history of the mammals

AS WITH other fields of human endeavour, science has its myths. One of the best known goes like this. Once upon a time, the world was dominated by dinosaurs. Mammals were tiny, nocturnal and crept around minding their own business. Then one day a big, bad asteroid came along and wiped out all the dinosaurs. The mammals shouted “Yippee”, leapt out of their burrows and took over. In the end, therefore, *Homo sapiens* rather than *Tyrannosaurus rex* became top animal.

Like all the best myths, there is some truth in it. But not the whole truth, as a paper in this week's *Nature* helps to make clear. The myth is based on fossil evidence, but these days genetics can trace the path of evolution, too. Olaf Bininda-Emonds of the Technical University of Munich and his colleagues have done that with the mammals. What they have discovered is that most mammal groups alive today came into existence long before the asteroid arrived 65m years ago. The idea that the absence of dinosaurs created a huge evolutionary spurt that led to man is therefore not quite precisely the truth.

Dawn's early light

In fact the myth never did quite match reality. What the fossils actually show is a false start. The Cretaceous—the last period when dinosaurs ruled the roost—was followed by the Palaeocene. During this time mammals, along with some large flightless birds, did take over. Then they became extinct. It was during the Eocene, which began 56m years ago, following the Palaeocene, that the ancestors of mammals around today are supposed to have diversified. The trouble is that if the genetics researchers are right, these modern groups did not actually originate in the Eocene. In fact, their ancestors appear to have emerged between 100m and 85m years ago—a time when the dinosaurs were still alive and chomping.

The team came to this conclusion by looking at 66 genes in 4,510 living mammal species. Only 44 known species escaped their trawl. Using well-established statistical techniques, they compared the DNA sequences of these genes in a way that not only shows who is related to whom, but also provides an estimate of when two genetic lines parted company.

Modern mammals divide into three overarching groups: the placentals (most species, including man), the marsupials (kangaroos and their like) and the monotremes (the egg-laying platypus and echidnas). The monotremes split off about 166m years ago and the marsupials parted company with the placentals 148m years ago. That, however, was not news; the fossils tell a similar story.

Nothing much then happened for 50m years when, all of a sudden, the placentals (or, at least, those with

surviving descendants) split into four so-called superorders. That was followed by further splits over the next 15m years, in which most of the big groups found today seem to have originated. What caused this diversification is not known for certain, but it coincides with the rise of the flowering plants, which is suggestive.

The really strange thing is that there is absolutely no hint of anything happening at the end of the Cretaceous. The characteristic Palaeocene fauna seems to have come and gone with the ancestors of modern mammals still skulking unchanged in their burrows.

As might be expected, the genes suggest that the pace of change hots up after the end of the Palaeocene, resulting in the sort of species illustrated above. As to what happened to the Palaeocene fauna, the evidence points not towards an errant asteroid but to a giant burp from the oceans, which released a huge amount of methane. Since methane is a potent greenhouse gas, things would have got very hot very quickly, to the detriment of any big animal that could not shed heat easily.

Having missed their opportunity 9m years earlier, man's ancestors and their kin now grabbed it, moving into the niches vacated by their recently exterminated cousins. The fossils show what is known as an adaptive radiation. This is biology-speak for a period of diversification so fast that the individual splits cannot be distinguished. What Dr Bininda-Emonds and his colleagues have shown, at least in this instance, is that the most important splits had already happened. It was just that they had happened in groups hitherto so rare that they do not feature much in the fossil record. In this case the meek truly did inherit the Earth.

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Spintronics

Zeroing in

Mar 29th 2007
From The Economist print edition

It may be possible to store a bit of data on a single atom and retrieve it

THE race in computing is a race to the bottom. Smaller components can do more in less space—and that applies both to processors that manipulate data and to memories that store them. Yet the urge to develop ever-smaller components suggests that, at some point, things will become so tiny that the effects of quantum mechanics start coming into play.

Often, this is regarded as a bad thing. It might, for example, allow electrons to leak to places where they are not wanted via a process called quantum tunnelling. Quantum effects can, however, also be beneficial, as a group of researchers writing in this week's *Nature Nanotechnology* demonstrate. Andrei Sokolov of the University of Nebraska and Bernard Doudin of the University of Strasbourg have shown how an individual “bit” of data—a one or a zero of the binary code used by computers—might be stored on a single atom.

One well-established way in which data are stored employs magnetoresistance, a property discovered in 1856 by William Thomson, later Lord Kelvin. Thomson found that the electrical resistance of some materials changes when a magnetic field is applied to them. This effect can be used to read back what has been recorded. Simply magnetise a spot or, more usefully, many spots, and the spots' status can be detected by measuring the changes they induce in the electrical resistance of a tiny sensor placed nearby.

Over the past 30 years several new forms of magnetoresistance have been found. These discoveries have given birth to a field of endeavour that is known as spintronics, because the magnetic properties of a material depend on a quantum-mechanical property of electrons called spin. The most recent of these new forms, predicted by theorists in 2005, is dubbed “ballistic anisotropic magnetoresistance”.

Physicists thought that ballistic anisotropic magnetoresistance would show itself when a magnetised metal wire a few atoms across was placed in a second magnetic field. The atoms of the wire would be magnetised in the direction of the field. That direction could be used to encode a bit of data. Any electron passing along such a wire should be able to travel ballistically (that is, without being slowed down by bumping into any atoms in the wire, just as a bullet travels down the barrel of a gun). Crucially for data storage, this free flow means that the spins of the electrons in question would be able to align themselves with those of the data-storing atoms, giving a clean signal.

The team led by Dr Sokolov and Dr Doudin has managed to do this. The researchers used standard lithographic techniques to make a narrow loop of cobalt wire that they placed on a silicon chip. To create the memory they tapered the wire to an hourglass shape at one point along its length. The waist of the hourglass was just an atom or so across, and acted as the narrow wire. As electrons passed through the waist, the signal from the atoms was indeed detected.

It is, of course, a long way from that to a device you can buy in the shops. But Dr Sokolov and Dr Doudin have proved the point. If their discovery can be commercialised it could give existing forms of compact memory a serious run for their money—and instead of being a curse of miniaturisation, quantum physics might turn out to be a blessing in disguise.

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Theatre design

No need to shout

Mar 29th 2007
From The Economist print edition

Why the acoustics of ancient Greek theatres are so good

“SO BY the arrangement of theatres in accordance with the science of harmony, the ancients increased the power of the voice.” That is how Marcus Vitruvius Pollio, a Roman architect, described the design of Greek theatres. He thought the important factor was the theatre's slope, designed to “trace the voice as it rose”.

That is not a bad guess; but it is wrong, according to Nico Declercq of the Georgia Institute of Technology, in Atlanta, and Cindy Dekeyser of its European campus in Metz, France. These two researchers recently applied modern acoustic theory to explain why actors who perform in the Hellenistic theatre of Epidaurus sound almost as loud to audience members in the theatre's outer seats as they do to those in the front row.

As well as the slope, the researchers considered the seats themselves. These are stone benches arranged in rows, which give the semicircular bowl-shape of the theatre a corrugated surface. In a paper about to be published in the *Journal of the Acoustical Society of America*, Dr Declercq and Ms Dekeyser calculate how each frequency of sound behaves as it diffracts off the rows of seats.

Epidaurus's perfect acoustics are indeed the result of what its audience sits on. Theatre-goers receive sound from the front, reflected off the theatre's foreground, as well as from behind them, backscattered by the seats. The seat rows only backscatter frequencies above a certain threshold, though, so they act, in effect, as a sound filter. Conveniently, Epidaurus's threshold is about 500 hertz. That is the usual upper limit of the noise of wind rustling through bushes and of the murmurs of an audience, which might have drowned the actors out.

Dr Declercq points out that it does not matter that the theatre design also removed fundamental tones of the human voice because the brain reconstructs these from the available high frequencies. Millions of people experience this daily without noticing it when they listen to somebody else's voice through the telephone.

Dr Declercq has previously demonstrated why a handclap in front of the stairs of the great pyramid of Chichen Itza, in Mexico, has an echo that sounds like the chirp of a beautiful bird called a quetzal. His is indeed a tough job, but somebody's got to do it.

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Genetic chimerism

Funky monkeys

Mar 29th 2007
From The Economist print edition

Marmosets give birth to their genetic nieces and nephews

IT DOES not take a biologist to tell that there are two sorts of twins. Twins can be genetically identical or they can be as different as siblings that were born at different times. Most marmosets, though, fall somewhere in between. These small New World monkeys may be cute, but they are chimeras nonetheless. Like the monster from Greek mythology, many marmosets are a mixture of more than one individual. They are, genetically, both themselves and their sibling at the same time.

There are two other odd (and indeed cute) things about marmosets. One is that they are always conceived as twins. The other is that they are unusually caring towards one another. Fathers are particularly and peculiarly doting. Now Corinna Ross and her colleagues at the University of Nebraska have found evidence to suggest the former oddity explains the latter. They have done so by showing that chimerism extends to all sorts of tissues, including marmoset sex cells.

That insight arose when Dr Ross DNA-fingerprinted 12 types of tissue from 39 dead marmosets, in order to work out how frequently cells containing a twin's genome occurred in different parts of the body. Marmosets are not equal mixtures of two genetic individuals. They become chimeras not because their embryos merge but because more often than not their placentas do. They thus share their embryonic blood supplies. That allows them to exchange stem cells, which then develop into more specialised sorts of cell in their new bodies.

Chimeric cells were scattered everywhere, including the sex cells. This means that, in principle, a marmoset can either father (if male) or give birth to (if female) a baby that is its niece or nephew rather than its son or daughter.

To find out if this actually happens, Dr Ross turned her attention to living marmosets. She used hair, blood and saliva samples to identify chimeric animals among the 36 sets of twins in her colony. First, as she reports in this week's *Proceedings of the National Academy of Sciences*, she proved the marmosets made babies from their chimeric sex cells. This happened even when the twins were brother and sister rather than being of the same sex.

That is bizarre, because female mammals have two copies of the X chromosome, and males have one X and one Y. Any chimeric female that passed on her twin brother's genes must have developed eggs from an XY stem cell instead of the normal XX. Conversely, a chimeric male that passed on his twin sister's genes grew sperm from an XX stem cell, rather than XY. Dr Ross found examples of both.

This done, she tried to work out whether chimerism influenced parental care in marmosets. Zoologists think of caring for others as selfish behaviour, which animals only bother with to improve the chances of their genes being passed on to future generations. Creatures therefore help to bring up babies only to the extent that they believe they are related to them. In marmosets, caring means carrying, so Dr Ross recorded the time each baby marmoset was carried by its mother and by its father during the first fortnight of life. Mothers spent less time carrying those of their offspring who were chimeras than they did carrying those that were non-chimeric. Fathers, however, behaved in the opposite way.

Why that happened is not clear. But one possibility is that, in a species in which females routinely mate with several males, chimerism evolved as a way of duping males into looking after offspring that are not their own. Chimerism, in other words, might confuse a male who fathered one twin into thinking he is dad to both.

This could happen because a chimeric twin that grew from an egg which his sperm did not fertilise would nonetheless have some skin cells containing his genes. The scent-producing cells of that skin would give

off pheromones signalling his paternity. Thus by mixing two fathers' genes between two infants, a female creates a situation in which both males consider it in their interest to care for both offspring—a double bonus.

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Semi-identical twins

Double trouble

Mar 29th 2007
From The Economist print edition

Twins that have cells of both sexes

MARMOSETS are not the only animals to produce unusual twins, it seems (see article). Most human twins are either identical (ie, sharing all their genes because they started as a single fertilised egg) or fraternal (coming from two eggs fertilised independently at the same time). However, Vivienne Souter and her colleagues at the Banner Good Samaritan Medical Centre in Phoenix, Arizona, have discovered a pair of human twins that are neither identical nor fraternal. Instead, they share all of their maternal genes but only half of their paternal genes. This genetic discordance is manifested in their sexes. One twin is male and the other is hermaphrodite—technically both male and female.

The twins, now toddlers, had been referred to Dr Souter because one had “ambiguous genitalia”. This twin had separate urinary and vaginal orifices, an enlarged clitoris and a suspected testicular mass. Researchers then tested both twins for sex-specific hormone levels, took samples of their genes to determine their parental origins and performed investigative surgery on the twin who had ambiguous genitals.

The surgery showed that the ambiguous twin possessed female genitalia on the right-hand side and male genitalia on the left, a condition that is known as true hermaphroditism. The other twin had only male genitals, but some of the cells of his skin and his immune system had two X chromosomes in their nuclei, the arrangement normally found in females, although others had the pairing of X and Y that is characteristic of males.

Knowledge of how such twins form is still sketchy. What seems most likely is that an unfertilised egg cleaves prematurely into two. Each daughter egg is then available for fertilisation by a sperm cell. The result is an embryo with two sets of paternal genes. Further on in its development, but at a point when the individual cells are still at their most basic and have the potential to give rise to any cell in the human body, this embryo splits to form twins.

What is also unknown is how common such “semi-identical” twins are. This pair would not have been noticed if neither had been hermaphrodite. Such genetically unusual individuals may thus be more numerous than is currently realised.

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About sponsorship

The Royal Shakespeare Company

All the world and its stage

Mar 29th 2007 | STRATFORD-UPON-AVON
From The Economist print edition

Few people like the Royal Shakespeare Theatre. But in a major redevelopment, it will be remodelled as pictured below, rather than knocked down

Royal Shakespeare Company

AN IMPOSING theatre has stood on the banks of the River Avon in William Shakespeare's home town since 1879. The first theatre burned down in 1926; a second, now known as the Royal Shakespeare Theatre (RST), opened in 1932. From the start, the building was scorned by most of the directors and many of the actors who worked there. “Sink it and start again,” said Sir Tyrone Guthrie, a director, in 1950.

They will soon have their way. After a final performance of a gripping production of “Coriolanus” on March 31st, the RST will close until 2010, and the theatre will be extensively remodelled before it reopens. However, instead of being a cause for celebration in the profession and among audiences, the closure is being accompanied by real regret. This imperfect theatre has been so influential in the lives of three generations of English theatre people that it has become the stuff of legend. Consequently, the fabric of the old building will be retained, wrapped around a newly designed theatre. “You wouldn't want to get rid of all your ghosts,” says Simon Harper, the deputy project director.

The old theatre was designed by a young woman called Elisabeth Scott in 1920s Modernist style. It was built of red brick and had fine art-deco decoration. The foyer box-office, for instance, is a gorgeous piece of early 20th-century design in stainless steel, green marble, bronze and silver bronze with ornamental grilles. The whole was rated Grade 2* (denoting a particularly important building of more than special interest) by English Heritage, the agency that lists historic buildings.

But the auditorium is like a cinema, with the circle and the balcony isolated from the stage. Although successive artistic directors insisted on internal alterations to create a closer relationship between the actors and their audience, the company has long regarded the internal space as a relic. For modern audiences, which have grown up with television, the relationship with the actors is not intimate enough.

Even so, audiences today remember a remarkable range of productions in the old theatre. “It's curious that such a dreadful theatre holds such memories of great events,” says Sir Peter Hall, whose own begin with Peter Brook's “Love's Labour's Lost” in 1946. Sir Peter became artistic director in 1960, and he immediately had a forestage installed, like an Elizabethan apron stage. His regime is probably best remembered for its version of Shakespeare's history plays. Most directors since then have repeated this testing exercise in producing Shakespeare. Michael Boyd, the present artistic director, is in the middle of his version of the histories right now.

During the closure of the RST, performances will take place in a new theatre up the road, called the Courtyard. This basic rusted steel box (it rises to 15.2 metres or 50 feet), which was built in 11 months and opened in the summer of 2006, is an ingenious way of managing the transition between the old and the new. Studies by a major accounting firm suggest that the presence of the Royal Shakespeare Company (RSC) benefits the local economy by £57m ($112m) a year. Complete closure for three years would have dire consequences for the smart shops in the town centre.

So Arts Council England released £6m from the £50m it is contributing to the whole project to build the Courtyard. (The Stratford theatre's commercial significance explains the contribution of £20m by Advantage West Midland, a regional development agency, to the £100m development budget. Only £15m has still to be found, and the RSC has not yet begun to tap its loyal supporters.)

The Courtyard is a model for the new auditorium. Because it is so different from the old, the directors and actors wanted to work out how best to perform in it. The audience of 1,050 sits in three shallow tiers of seats on three sides of a stage that juts out over ten metres from the proscenium. This is known as a thrust stage, and it is controversial—actors often have their backs to the audience, making audibility a problem. But, because of the intimacy it allows between audience and actors, the RSC is wedded to it. Sir Peter, for example, prefers the less prominent apron stage in his new theatre in Kingston upon Thames, but a thrust stage has been used successfully in the smaller Swan theatre, part of the old theatre building. (It will be mothballed during the redevelopment.)

Since the Swan has been where directors and actors have preferred to work and the audience has been enthusiastic, Mr Boyd decided to recreate it on a larger scale in the new theatre. “Our inspiration is the crowded, secular complexity of the Elizabethan courtyard,” he says.

The final planning application for the project will be considered next month. Apparently, the only controversial item is a 35-metre tower with lifts and a bridge to the theatre to take the audience to the circle and balcony. On top of the tower is an observation platform that some councillors say is obtrusive. But there is no argument about plans for Scott's distinguished red-brick monument to the Bard. “Knocking it down would have been quicker and cheaper,” says Vikki Heywood, the RSC's executive director. But it was not an option. Thank goodness.

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About sponsorship

A history of catapults

Bringing ancient warfare to life

Mar 29th 2007
From The Economist print edition

ANYONE who has fired a rubber band across the office or classroom will know the joy of storing and releasing kinetic energy. The ancients had to make do with twisted ropes and sinews. But with trial, error and some handy mathematics, they created the most sophisticated war machines the world had ever seen—terrifying contraptions capable of hurling rocks weighing as much as 75 kilograms (170lb).

That is the story told by Tracey Rihll, a British classics lecturer, in her history of the catapult over ten centuries, from the earliest slingshots to the technological collapse of the dark ages.

It is much more than tales of boys' toys from long ago. In telling the story of the advance and decline in military technology between the rise of Macedon and the fall of Rome, she gives the reader a commendably approachable and lively tour of classical history. Her dryly humorous asides, such as the appallingly dangerous business of learning to use a sling, are a treat. So are the linguistic twiddles. Darts known by the Greek word for mice became confused with a similar-sounding word that means flies. That became *musca* in Latin, then the diminutive *muschetta* and ultimately—by now a weapon, not a projectile—musket.

The predecessors of the big catapults were the sling and the bow. Combining their characteristics amplified the effect of human muscle: instead of harnessing the energy of one man's arm to a wooden bow, the power of several men could be stored in twisted animal sinews and then released. The result could batter fortifications, sink ships, set cities on fire and kill enemies in hitherto unimagined numbers.

But such spectacular siege engines (seen, loosely reconstructed, in faux-medieval films such as “The Lord of the Rings”) are only part of the story. The typical catapult was not a monster, but an easily portable affair, more powerful than the bow and requiring less skill.

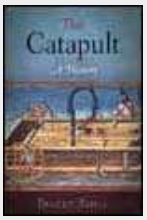
Ms Rihll mixes delight at the ancients' ingenuity with contempt for the way their work was obscured by vague and ignorant contemporary chroniclers, as well as by later scholars keen to peddle pet theories rather than look at the evidence. She scrupulously reworks translations of ancient texts to make them comprehensible, spotting mistranslations and misapprehensions galore. The combination of textual analysis, military history and understanding of the underlying science is a fine example of how modern classical scholarship can still surpass the efforts of past centuries, when the subject commanded far greater attention and resources.

It is a pity, then, that her scholarship is let down by feeble illustrations. Ms Rihll's own sketches are valiant but quite inadequate; what is needed are pictures or better diagrams. A fuller index and glossary are badly missed too. Crucial terms such as the catapult “washer” occur throughout the text but are not explained properly.

A revised edition would be a compelling addition to a good school library. It might even send some pupils to explore those dusty and neglected books that were once regarded as the foundation of a proper education.

The Catapult: A History.
By Tracey Rihll.
Westholme; 380 pages; $29.95 and £19.95

The Catapult: A History
By Tracey Rihll



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Having affairs

International relations

Mar 29th 2007
From The Economist print edition

AMERICANS do it guiltily, Russians casually, Africans lethally and the French habitually. Stereotypes about adultery are as common as research about it is flaky. So Pamela Druckerman's thoughtful and myth-busting study of infidelity deserves to be widely translated and read.

A former *Wall Street Journal* reporter, Ms Druckerman likes hard facts. So before getting into the tricky questions of guilt and complicity she tries to find an international adultery league table. That proves amazingly difficult. There are bogus surveys galore—she takes commendable swipes at Alfred Kinsey and Shere Hite—but very little based on proper, probability-weighted samples, and even fewer international comparisons.

Ms Druckerman finally unearths some unpublished data collected as part of AIDS research at the London School of Hygiene and Tropical Medicine. The most adulterous countries in the world are African. In Togo 37% of married or cohabiting men say they have had another sexual partner in the past 12 months. The most uxorious are probably Switzerland (3%) and Australia (2.5%).

In Japan she, like many outsiders, is baffled by the contrast between a gooey sentimentality about romance, and the sexlessness and distance of many Japanese marriages. It has its drawbacks, especially for women, but doesn't do much harm, she concludes. Her finely calibrated moral compass is matched by a reporter's knack for deft, understated description. She dryly recounts a visit to a sex club that is done up like a crowded subway train, where the customers pay for the privilege of being able to grope the female “commuters”.

Americans, she reckons, are a bit neurotic about adultery; in other countries it counts as a regrettable lapse, but not necessarily an unforgivable act of heinous betrayal. By contrast, in France, where she lives, people find it reprehensible that Americans actually discuss the point when dating turns monogamous; until then they casually juggle several suitors at once. The French are faithful during courtship; their marriages and liaisons last longer than Americans' do. Fidelity is rated as the top quality that Frenchwomen look for in a man; for men it comes second after “tenderness”. On the whole, though, they are tolerant of infidelity when it happens.

Her conclusion: people in rich countries value monogamy and tend not to stray often. In America, however, “adultery crises last longer, cost more, and seem to inflict more emotional torture.” Americans are so guilt-ridden, she writes, that they don't even enjoy what should be the pleasurable bit. Better, she reckons, to take a lesson from the French, who believe that monogamy is optimal, enjoy the lapses when they happen but try not to escalate them, and never, ever, confront a spouse for cheating.

Lust in Translation: The Rules of Infidelity from Tokyo to Tennessee.
By Pamela Druckerman.
Penguin Press; 291 pages; $24.95

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Stem cells

Laboratory dramas

Mar 29th 2007
From The Economist print edition

Four books reflect on the most operatic field in science

WHY does embryonic stem-cell research cause such dramas? These books propose two perspectives. Three journalists—Eve Herold, Seth Shulman and Cynthia Fox—each suggest that this is a new topic that has been hijacked by a small group of political hotheads in America. By contrast, Hannah Landecker, an anthropologist at Rice University, Texas, charts 60 years of tissue-culture science. Over this period cells gradually came to live free from bodies, then experiments conjured them bit by bit into freezable, mass-produced objects and eventually into chimeras with parts from more than one species. Together, the two perspectives explain why all things stem cell slap the layman in the face, and why his shock bewilders many a scientist.

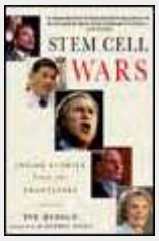
Embryonic stem cells clump together as a tiny and distinct blob inside fluid-filled balls called blastocysts. That is what embryos look like when they are between five and seven days old. To conduct experiments on embryonic stem cells, scientists extract the clump from its blastocyst (destroying the rest of the embryo in the process), and then keep the stem cells separately in Petri dishes. Doing so maintains each stem cell's potential to develop into any type of cell in the human body by removing it from the chemical signals of other cells that would otherwise prompt specialisation. Alone in their Petri dishes, embryonic stem cells are primed for anything, making them unique tools for research and therapy. They divide and divide, forming populations of identical copies of themselves known as lines.

It is the blastocyst destruction in this process that ideologues perceive as morally reprehensible. By equating it to killing babies they entangle the science in the politics of abortion. Ms Herold argues strongly against such views. Her book points out that giving individual rights to a blastocyst is problematic. At that early stage, embryos can split to form twins or triplets. Or pairs of blastocysts can fuse and develop into a normal baby, who grows into a healthy adult.

Ms Herold also points out a number of inconsistencies. Federal funding of stem-cell research has been withdrawn as a result of pressure by people—a minority among taxpayers—who take a moral stand against it. Yet people who disapprove of using animals to conduct medical research still contribute to it through the federal taxes they pay. And why does destroying blastocysts in the name of finding cures evoke such tigerish protests when most fertility clinics have for years routinely disposed of them as medical waste?

Using arguments similar to those made by Chris Mooney in “The Republican War on Science”, Mr Shulman, by contrast, considers the political misrepresentations of stem-cell science. Just over six months into his presidency, Mr Bush declared on television that he would end federal funding of most stem-cell research. It was his first national television address. Publicly funded work could continue on 60-or-so genetically diverse stem-cell lines, Mr Bush said. But the presidential lines, as they came to be known, numbered about two dozen, not 60, and the immediate effect of the decision left 11,000 frozen American embryos that had been donated for research hanging, quite literally, in liquid nitrogen.

Stem Cell Wars: Inside Stories from the Frontlines
By Eve Herold



Palgrave Macmillan; 256 pages; $24.95 and £15.99

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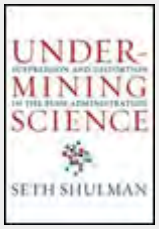
Undermining Science: Suppression and Distortion in the Bush Administration
By Seth Shulman



University of California Press; 222 pages; $24.95 and £15.95

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Cell of Cells: The Global Race to Capture and Control the Stem Cell
By Cynthia Fox

Researchers cherish lines of embryonic stem cells. They think delicate chemical husbandry will one day yield a method to grow the cells into replacements for dead and diseased tissue. A human egg, with its nucleus swapped for that of a patient's skin cell, can behave as if it has just been fertilised by a sperm and grow into a blastocyst. The clump of stem cells in the middle of a blastocyst clone could then be coaxed into nerve cells for a patient with Parkinson's disease, or cardiac muscle for a heart-disease patient, without risk of rejection by those patients' immune systems.

Ms Fox's book captures the adventures of scientists working towards this medical ambition with a realistic humanity. Hers is less workmanlike than the other books and refreshingly unideological. She tells of Egyptian scientists trying to establish a research centre in the midst of suicide-bombings. She describes underground stem-cell clinics in China and a Japanese doctor using the cells to give skinny women bigger bosoms. Away from the polarised propaganda, these are the many ambitions that stem-cell research is stirring up.

In the final chapters of their books Ms Fox and Ms Herold chart the undoing of Hwang Woo-suk, once the global leader in the field, who lied about creating human embryonic stem cells by cloning. Ms Fox's examination of “Hwang-gate” is the more colourful. Mr Hwang's comments encouraged South Korean kindergartens to swap wooden chopsticks for metal ones. The metal variety have more slippery pincers to work with and so provide apparently better training for the stem-cell technicians of the future. The officially titled “Supreme Scientist” also kept more than 60 bank accounts under different names and carried bags of cash between banks to obscure paper trails for his funding.

Mr Hwang's fakery damaged the integrity of a science that could ill afford any bad news. Meanwhile, doctrinal activists still sing out their contradictions and exaggerations. Britain, so far one of the least hysterical countries, recently postponed a decision about whether making chimeric cells out of rabbit-egg cytoplasms and human nuclei should be illegal. Tabloid newspapers immediately began commissioning cartoons of Frankenbunnies.

Yet few laymen realise that scientists first fused cells from different species as far back as the 1960s, as Ms Landecker describes. In those instances nuclei as well as cytoplasms came together and the hybrid cells made perfectly functioning enzymes that expressed the genetic code of two types of animal. That is much closer to what Mary Shelley imagined than anything British stem-cell researchers are proposing today. The level-headedness that can be gained from historical perspective is the value in reading Ms Landecker's account. Unfortunately, though, the signs are that this search for new medicines is becoming ever more operatic.

Stem Cell Wars: Inside Stories from the Frontlines.
By Eve Herold.
Palgrave Macmillan; 256 pages; $24.95 and £15.99

Undermining Science: Suppression and Distortion in the Bush Administration.
By Seth Shulman.
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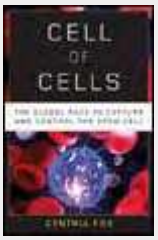
Cell of Cells: The Global Race to Capture and Control the Stem Cell.
By Cynthia Fox.
Norton; 288 pages; $26.95

Culturing Life: How Cells Became Technologies.
By Hannah Landecker.
Harvard University Press; 288 pages; $35 and £22.95



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Japan

Paths of power

Mar 29th 2007
From The Economist print edition

DESPITE their world-beating multinational companies and their export-led post-war economic miracle, the word “insular” might have been invented with the Japanese in mind. By virtually any measure—trade, tourism, foreign students, immigration, cultural interchange—Japan is the least globalised of all the rich, industrialised democracies. Ever since it opened up to the world in the 1850s, it has in reality engaged with outsiders only when opportunity or necessity required. Now it is becoming more assertive, especially in its North-East Asian region, and shows signs of wanting to try to shape the future politics of Asia. But this is not out of ideology or ambition. It is because of perceived necessity, in the face of a rising China and of dangers posed to Japan from the Korean peninsula.

That is what Kenneth Pyle argues in his fine new book about Japan's foreign-policy stance. A professor of Asian studies at the University of Washington, a long-time Japan-watcher and president of the National Bureau of Asian Research, an American think-tank, he has excellent credentials for his chosen task. That task is not, actually, quite the one his publishers imply in the book's subtitle, for only a 12-page epilogue is devoted to how Japan's economic recovery and changed domestic politics are contributing to a “resurgence of Japanese power and purpose”. This reader was left wanting much more on how things are changing, and where the changes might lead. Yet the task Mr Pyle in fact took on is still a worthwhile one, and the book he has written to fulfil it is outstanding.

Japan Rising: The Resurgence of Japanese Power and Purpose
By Kenneth B. Pyle

PublicAffairs; 433 pages; $29.95

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“Japan Rising” is a history of Japan's approach to the world, drawing on 1,000 years or more of its political and cultural development but focusing on the period since American ships forced the Tokugawa shogunate to liberalise trade in 1853. And it is an admirably balanced history too, able to see the Japanese point of view about the hypocrisy of the European and American imperialists, especially in the first half of the 20th century, who spoke of ideals, human rights and self-determination while preserving their own empires, exerting their own power and seeking to entrench racial inequality.

As a result, Mr Pyle provides a good answer to the question “why?” about contemporary Japan's changing stance, even if he says little about “how?” and nothing about “where to?”. The picture he draws is of a country that has generally seen its foreign policy in defensive terms, not as a tool to shape the world in its interest or image but as a means of survival or at least of self-protection. That took a highly aggressive form in Japan's occupation of Taiwan and Korea at the turn of the 20th century and its invasions of parts of China in the 1930s. Mr Pyle argues that although there were keen imperialists in the Japanese leadership, the underlying motive was consistent with a longer-term desire to prevent instability in either of Japan's main neighbours from damaging Japan itself, or of tempting in another imperialist who might prove hostile to Japan.

That same defensive motivation is what Japan is exhibiting today. A new generation of politicians is emerging, without the post-war hang-ups about defeat or the need to let economics take the lead. China's growth, and increasing willingness to throw its weight around in Asia, is worrying many Japanese leaders. So is the prospect of Korean unification, which might lead to the withdrawal of American troops and some unpredictable, and perhaps hostile, new regime there. Reluctantly, but emboldened by economic recovery, Japan is beginning to exert itself again, loosening its army from its post-war ties and trying to build alliances in the region. But another book will be required to explore where that may lead.

Japan Rising: The Resurgence of Japanese Power and Purpose.
By Kenneth B. Pyle.
PublicAffairs; 433 pages; $29.95

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About sponsorship

New fiction

Beach music

Mar 29th 2007
From The Economist print edition

IAN McEWAN is back on form. Following “Saturday”, his enjoyable but overly safe previous novel, this master of fiction has written a poignant new book that in terms of its diminutive size—though not its emotional range—is reminiscent of his Man Booker-prize-winning “Amsterdam”.

It is July 1962. Edward and Florence, both 22 years old, educated yet innocent, have been married for just eight hours after a courtship bound by unspoken protocols. In their honeymoon suite overlooking Chesil Beach on the Dorset coast they are served a formal dinner of long-ago roasted beef in thickened gravy, soft-boiled vegetables and white wine: “It would not have crossed Edward's mind to order a red.” Neither has any appetite. There is a starched, stilted feeling in the tepid evening air as, almost strangers, they stand, “strangely together, on a new pinnacle of existence”.

They believe their marriage will bring them happiness and the freedom to realise the plans “heaped up before them in the misty future”. Yet, despite this joyful promise neither is able to suppress fully the anxieties about the moment when, after dinner, they must “reveal themselves fully to one another” on the narrow four-poster bed with pure white covers.

For Edward, who is suffering first-night nerves, this moment will be the resolution of a prospect that has mesmerised him for more than a year. But for Florence a “visceral dread, a helpless disgust as palpable as seasickness” is overwhelming her. Here is a woman who knows that sex will never be the “summation of her joy” but the price she must pay for love—an emotion she sees as “a comforting broth...a thick winter blanket of kindness and trust”.

Mr McEwan's prose is, as always, intense and visually descriptive, but in this elegantly crafted novel his skill lies in his illumination of an evening taut with emotional paralysis and in his portrayal of missed opportunity. As events move forward to the book's dénouement, “On Chesil Beach” becomes much more than a simple story of emotions held in check by convention. It is a memorable exposé of how terrible wounds can be inflicted and the entire course of a life changed—by doing nothing.

On Chesil Beach.
By Ian McEwan.
Jonathan Cape; 166 pages; £12.99.
To be published in America by Nan A. Talese in June

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By Ian McEwan

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Robert Taylor

Mar 29th 2007
From The Economist print edition

TSPL

Robert Taylor, a possible victim of alien abduction, died on March 14th, aged 88

WHAT was it about Bob Taylor? He was an unassuming man, steady, phlegmatic, with a thick brush of white hair and a craggy outdoorsman's face. He liked a pint, and a dram too, but not when he was working. He smoked, but not too many. In his house at the edge of Dechmont Woods near Livingston in West Lothian, where he had worked all his life as a forester, there were very few books. And certainly there was none that could explain what happened to him on November 9th 1979, and why his trousers, of thick navy serge like a policeman's and with useful pockets in the sides, should have ended up in the archives of the British UFO Research Association.

Mr Taylor set off that morning, with his red setter Lara, to check the woods on Dechmont Law for stray sheep and cattle. It was a damp day and, after he had parked the van and set off down the forest track, even the noise of the Edinburgh-Glasgow motorway was muffled by thick, dark fir trees. The dog ran, and Mr Taylor's trudging wellingtons made the only sound. Then he turned a corner into a clearing filled with light, and saw it.

It was a “flying dome”, 20 feet wide, hovering above the grass. No sound came from the object, and it did not move. It seemed to be made of grey metal, shiny but rough, like emery paper. About half-way down it had a circular platform, like the brim of a hat, set with small propellers. There were darker areas on it that might have been portholes, but the strangest thing was that the dome would be solid one moment, transparent the next, so that Mr Taylor could see the fir trees through it, as if it was trying to camouflage itself.

Both he and the dog stood stock-still with surprise. But then, suddenly, two smaller spheres dropped out of the dome and came trundling across the grass, one to his right, one to his left. They were covered in long spikes, like navy mines, that made a ghastly sucking sound as they dug in and out of the mud. They grabbed his trousers, one on the right leg, one on the left, ripping right through to his winter long johns, and giving off a foul choking smell like burning brakes. Mr Taylor felt himself being pulled towards the craft; then he blacked out. When he came to, the visitors had gone.

So far, so impressive a story to explain a dishevelled homecoming on a Saturday night. But it was in mid-week and at midday that Mr Taylor crawled home, with the dog but without the van, with a graze on his chin and his trousers torn, covered in mud and with a thumping headache. His wife called a doctor and the police. Mr Taylor felt no need for the doctor, and after two days of a wild, craving thirst and the weird brake smell, he felt fine. But he took the police to the scene.

And there was the evidence. A large circle and inner “ladder” marks, which had flattened the grass but not dented the ground, as if a heavy craft had hovered but not landed. Forty little round holes, leaving the circle clockwise and anticlockwise, as if spiky “mines” had indeed rolled out of it. But no track entering or leaving the clearing, making the machine's arrival impossible unless it was a helicopter or something dropped by a mobile crane; and nothing of that sort had been seen in the area that day or the day before.

Lights over Livingston

The detective sergeant in charge of the case did not believe in space visitors. Mr Taylor's boss at the Forestry Department did not believe either, and thought it was probably some secret device being tested by the government. UFO debunkers thought Mr Taylor might have seen a magnified image of Venus distorted by the earth's atmosphere, which had made him fall down in an epileptic fit. The press came; and by the time the story reached Edinburgh, it was “small furry creatures” that had poured from the spacecraft to attack him. “I know what I saw,” said Mr Taylor. So doughtily and drily did he stick to his tale (and kept a camera with him ever after, to take the aliens' pictures if they ever came for him again) that the police opened a criminal investigation for assault, the only one in Britain to arise from a UFO “sighting”. It remains open.

Mr Taylor's neighbours proving much more sceptical, he eventually moved away to an undisclosed address. But he also became the most famous “witness” to aliens in Britain. His trousers were taken to spiritualist meetings to be analysed by psychics (“I feel pain from these trousers”), and on anniversaries of the sighting UFO-spotters would gather in the clearing, just on the off-chance.

The aliens, meanwhile, did not give up. Since that November day they have filled the skies of West Lothian with glimmering discs, strange lights and bouncing balls of fire. The “Falkirk Triangle” now registers more UFO sightings, around 300 a year, than any other spot on Earth. A good many happen outside the Forge restaurant in Bonnybridge, where fireballs sail over the trees and “wingless planes” are seen in the fields. Some experts say West Lothian may be a “thin place”, offering a window from the Earth into another dimension; others say the sightings are linked to the lack of jobs locally, and cheap liquor. But some know the aliens are just looking for Bob Taylor, or his dog, or his van, in the place where they last saw him, suddenly amazing them in a clearing among the trees.

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Overview

Mar 29th 2007
From The Economist print edition

Oil prices rose sharply as fears of a military clash in the Gulf intensified. The benchmark price for a barrel of West Texas Intermediate rose above $68 during the day on March 27th, before falling back.

America's housing market continued to send mixed signals. Sales of new one-family homes fell by 3.9% in February after plunging 15.8% in January. But sales of existing homes rose by 3.9%, the biggest one-month increase in three years. In testimony to Congress, Ben Bernanke, chairman of the Federal Reserve, said that inflation was still the Fed's main concern.

New orders for durable goods in **America** rose by 2.5% in February, only partly reversing a 9.3% drop the previous month.

Business confidence in **Germany** perked up in March, according to Ifo's monthly survey. The index rose to 107.7, having fallen back from December's 15-year high of 108.7. Germany's unemployment rate fell to 9.2% in March on the national labour office's definition and to 7.5% in February on the International Labour Organisation measure.

Britain's current-account deficit widened to £12.7 billion ($24.3 billion) in the fourth quarter. The deficit grew from £29.2 billion (2.4% of GDP) in 2005 to £43.4 billion (3.4%) last year.

The National Bank of **Poland** kept its benchmark interest rate at 4% on March 28th. Two days earlier, **Hungary's** central bank left its base rate unchanged at 8%.

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Output, prices and jobs

Mar 29th 2007
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2007†	2008†	latest	latest	year ago	2007†	rate‡, %
United States	+3.1 Q4	+2.2	+2.6	+2.9	+3.4 Feb	+2.4 Feb	+3.6	+2.3	4.5 Feb
Japan	+2.3 Q4	+5.5	+2.2	+2.3	+4.3 Jan	nil Jan	–0.1	+0.6	4.0 Jan
China	+10.7 Q4	na	+9.8	+9.7	+12.6 Feb	+2.7 Feb	+0.9	+2.7	9.8 2006
Britain	+3.0 Q4	+2.7	+2.7	+2.6	+0.4 Jan	+2.8 Feb**	+2.0	+2.0	5.5 Jan††
Canada	+2.3 Q4	+1.4	+2.4	+2.7	–3.3 Dec	+2.0 Feb	+2.2	+2.1	6.1 Feb
Euro area	+3.3 Q4	+3.6	+2.3	+2.2	+3.7 Jan	+1.8 Feb	+2.3	+1.9	7.4 Jan
Austria	+3.3 Q4	+3.3	+2.6	+2.5	+8.9 Dec	+1.7 Feb	+1.2	+1.8	4.5 Feb
Belgium	+2.9 Q4	+2.4	+2.1	+2.3	+4.4 Jan	+1.8 Feb	+2.4	+1.9	11.5 Feb‡‡
France	+2.2 Q4	+2.6	+2.1	+2.2	–0.6 Jan	+1.0 Feb	+1.9	+1.7	8.6 Jan
Germany	+3.7 Q4	+3.5	+2.2	+2.1	+7.9 Jan	+1.9 Mar	+1.8	+1.5	9.2 Mar
Greece	+4.3 Q4	na	+3.5§	+3.3§	+3.0 Jan	+2.7 Feb	+3.2	+2.8§	8.8 Q4
Italy	+2.8 Q4	+4.7	+1.8	+1.6	+1.3 Jan	+1.8 Feb	+2.1	+2.0	6.5 Q4
Netherlands	+2.7 Q4	+2.6	+2.7	+2.6	+4.6 Jan	+1.5 Feb	+1.1	+1.9	5.0 Feb††
Spain	+4.0 Q4	+4.8	+3.3	+2.8	+7.7 Jan	+2.4 Feb	+4.0	+2.8	8.6 Feb
Czech Republic	+5.8 Q4	+5.8	+5.1	+4.6	+9.8 Jan	+1.5 Feb	+2.8	+2.4	7.7 Feb
Denmark	+2.9 Q4	+0.6	+2.5	+2.3	+1.1 Jan	+1.9 Feb	+2.1	+2.1	3.9 Feb
Hungary	+3.2 Q4	+3.2	+2.3	+3.0	+10.5 Jan	+8.8 Feb	+2.5	+6.6	7.4 Feb††
Norway	+2.7 Q4	+2.0	+2.5§	+2.2§	–2.4 Jan	+0.8 Feb	+2.6	+2.6§	2.7 Feb††
Poland	+6.4 Q4	na	+5.4	+5.0	+12.9 Feb	+1.9 Feb	+0.7	+2.0	14.9 Feb‡‡
Russia	+6.5 Q3	na	+7.0	+6.3	+8.7 Feb	+7.8 Feb	+11.1	+7.3	7.3 Feb‡‡
Sweden	+4.7 Q4	+5.0	+3.5	+3.0	+4.1 Jan	+2.0 Feb	+0.6	+1.8	4.8 Feb‡‡
Switzerland	+2.2 Q4	+1.8	+2.1	+2.0	+8.9 Q4	nil Feb	+1.4	+1.2	3.2 Feb‡‡
Turkey	+3.4 Q3	na	+4.3	+5.3	+14.8 Jan	+10.2 Feb	+8.2	+8.3	9.6 Q4‡‡
Australia	+2.8 Q4	+4.2	+2.8	+3.2	+0.9 Q3	+3.3 Q4	+2.8	+2.6	4.6 Feb
Hong Kong	+7.0 Q4	+5.3	+5.4	+5.1	–1.4 Q4	+0.8 Feb	+1.2	+2.5	4.3 Feb††
India	+8.6 Q4	na	+8.0	+7.8	+10.9 Jan	+6.7 Jan	+4.7	+5.0	7.6 2006
Indonesia	+6.1 Q4	na	+6.0	+5.9	+23.4 Dec	+6.3 Feb	+17.9	+6.5	10.3 2005
Malaysia	+5.7 Q4	na	+5.5	+5.7	+2.3 Jan	+3.1 Feb	+3.2	+2.5	3.1 Q3
Pakistan	+6.6 2006§§	na	+6.6§	+6.0§	+6.8 Sep	+7.4 Feb	+8.0	+7.4§	na
Singapore	+6.6 Q4	+7.9	+5.4	+5.4	+0.1 Feb	+0.6 Feb	+1.2	+1.4	2.6 Q4
South Korea	+4.0 Q4	+3.4	+4.4	+4.7	–0.4 Feb	+2.2 Feb	+2.0	+2.3	3.2 Feb
Taiwan	+4.0 Q4	na	+4.3	+4.6	–2.8 Feb	+1.7 Feb	+1.0	+1.4	3.9 Feb
Thailand	+4.2 Q4	+2.7	+4.3	+4.8	+7.3 Jan	+2.3 Feb	+5.6	+2.9	1.0 Dec
Argentina	+8.6 Q4	+7.4	+7.0	+4.8	+2.4 Feb	+9.6 Feb	+11.5	+9.8	8.7 Q4‡‡
Brazil	+3.8 Q4	+4.5	+3.3	+3.5	+4.5 Jan	+3.0 Feb	+5.5	+3.7	9.3 Jan‡‡
Chile	+4.3 Q4	+7.8	+5.1	+5.2	+4.6 Feb	+2.7 Feb	+4.1	+2.6	6.4 Feb††††
Colombia	+8.0 Q4	nil	+5.0	+4.5	+12.3 Dec	+5.3 Feb	+4.2	+4.2	13.8 Jan‡‡
Mexico	+4.3 Q4	+1.9	+3.5	+3.7	+1.4 Jan	+4.1 Feb	+3.7	+3.8	4.0 Feb‡‡
Venezuela	+11.8 Q4	na	+6.2	+3.9	+4.1 Dec	+20.4 Feb	+12.5	+18.3	8.9 Q4‡‡
Egypt	+7.1 Q3	na	+6.5	+5.9	+10.5 2006	+12.6 Feb	+4.0	+9.9	10.9 Q2‡‡
Israel	+3.7 Q4	+8.0	+4.6	+4.3	+6.9 Jan	–0.8 Feb	+3.1	+1.4	7.7 Q4
Saudi Arabia	+4.2 2006§	na	+4.1§	+5.0§	na	+2.9 Dec	+1.2	+2.5§	na
South Africa	+6.1 Q4	+5.6	+4.4	+4.7	+6.2 Jan	+5.7 Feb	+3.9	+5.4	25.6 Mar‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+10.9 Q4	+8.2	+9.2§	+7.6§	+6.8 Jan	+4.7 Feb	+4.6	+4.3§	4.7 Feb
Finland	+5.3 Q4	+3.8	+2.7§	+2.5§	–3.2 Jan	+2.2 Feb	+0.9	+1.4§	7.0 Feb
Iceland	+2.5 Q4	+7.8	+2.8§	+3.7§	na	+5.9 Mar	+4.5	+3.9§	1.3 Feb‡‡
Ireland	+5.0 Q4	+0.1	+5.4§	+3.6§	+8.9 Jan	+4.8 Feb	+3.3	+3.4§	4.3 Feb
Latvia	+11.9 Q4	na	+9.2§	+7.5§	+0.2 Jan	+7.3 Feb	+6.1	+6.0§	6.1 Jan
Lithuania	+6.9 Q4	+7.4	+6.5§	+6.4§	na	+4.3 Feb	+3.4	+1.9§	6.2 Feb
Luxembourg	+5.4 Q3	+4.1	+4.3§	+4.8§	+2.3 Dec	+2.0 Feb	+3.0	+2.0§	4.9 Jan‡‡
New Zealand	+1.3 Q3	+1.0	+3.0§	+3.1§	–1.4 Q3	+2.6 Q4	+3.1	+2.0§	3.7 Q4
Peru	+9.2 Jan	na	+6.1	+5.5	+11.9 Dec	+0.4 Feb	+2.7	+1.4	9.5 Feb‡‡
Philippines	+6.5 Q4	+5.6	+5.6	+5.7	+2.0 Jan	+2.6 Feb	+7.6	+4.2	7.3 Q4‡‡
Portugal	+1.7 Q4	+1.9	+1.4§	+2.0§	–1.3 Jan	+2.4 Feb	+2.9	+2.4	8.2 Q4‡‡
Slovakia	+9.6 Q4	na	+7.0§	+5.4§	+17.5 Jan	+2.7 Feb	+4.4	+2.5	11.0 Jan
Slovenia	+5.5 Q4	na	+5.8§	+5.3§	+4.2 Dec	+2.1 Feb	+2.2	+2.7	8.7 Jan‡‡

*% change on previous quarter, annual rate. †The Economist poll. ‡National definitions. §Economist Intelligence Unit estimate/forecast. **RPI inflation rate 4.6% in Feb. ††Latest three months. ‡‡Not seasonally adjusted. §§Year ending June.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity price index

Mar 29th 2007
From The Economist print edition

The Economist commodity-price index

2000=100

	Mar 20th	Mar 27th*	% change on one month	% change on one year
Dollar index				
All items	194.7	192.9	+0.2	+23.1
Food	159.3	158.2	–0.9	+18.3
Industrials				
All	240.4	237.9	+1.1	+27.5
Nfa†	154.6	156.9	–0.1	+6.0
Metals	287.3	282.1	+1.5	+35.9
Sterling index				
All items	150.8	148.9	+0.2	+9.6
Euro index				
All items	135.4	133.7	–0.6	+11.4
Gold				
$ per oz	659.90	633.95	–6.7	+11.7
West Texas Intermediate				
$ per barrel	57.28	62.96	+4.0	–4.6

*Provisional †Non-food agriculturals.

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Salary growth

Mar 29th 2007
From The Economist print edition

White-collar workers in the developing world are likely to enjoy sizeable increases in real pay this year, according to a study by Hay Group, a management consultancy. Its report is based on a survey of employers' expectations of pay awards, adjusted for predicted inflation. Real pay tends to rise in line with growth in the economy, which is why China and India are set for the biggest increases of the 62 countries surveyed. With few exceptions, pay growth in western Europe and America is expected to be below 2%. Brazil is the one big developing economy where wage growth is forecast to be as muted as in rich countries. Senior managers are expected to see their pay outpace the average in nearly all the countries surveyed.

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Trade, exchange rates, budget balances and interest rates

Mar 29th 2007
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†	Currency units, per $ Mar 28th	Currency units, per $ year ago	Budget balance % of GDP 2007‡	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−829.1 Jan	−856.7 Q4	−5.9	–	–	−2.2	5.23	4.62
Japan	+83.9 Jan	+173.3 Jan	+3.8	116	118	−4.9	0.57	1.67
China	+204.8 Feb	+160.8 2005	+7.6	7.73	8.03	−1.7	2.86	3.26
Britain	−154.2 Jan	−80.1 Q4	−3.1	0.51	0.58	−2.5	5.55	4.92
Canada	+47.3 Jan	+21.4 Q4	+0.9	1.16	1.17	1.2	4.17	4.11
Euro area	−7.0 Jan	−17.3 Jan	nil	0.75	0.83	−1.5	3.91	na
Austria	−0.2 Dec	+12.2 Q3	+1.1	0.75	0.83	−1.2	3.91	4.07
Belgium	+17.0 Jan	+6.8 Sep	+2.2	0.75	0.83	0.1	3.97	4.08
France	−36.0 Jan	−32.4 Jan	−1.4	0.75	0.83	−2.5	3.91	4.08
Germany	+209.6 Jan	+152.0 Jan	+4.8	0.75	0.83	−0.6	3.91	4.02
Greece	−44.3 Dec	−30.5 Jan	−7.1†	0.75	0.83	−2.9	3.91	4.23
Italy	−26.3 Jan	−46.9 Jan	−1.9	0.75	0.83	−3.2	3.91	4.22
Netherlands	+42.5 Jan	+59.7 Q4	+7.8	0.75	0.83	0.6	3.91	4.06
Spain	−114.6 Jan	−107.6 Dec	−8.5	0.75	0.83	0.3	3.91	4.08
Czech Republic	+1.9 Jan	−6.1 Q4	−3.3	21.0	23.9	−4.2	2.57	3.80
Denmark	+6.7 Jan	+6.3 Jan	+2.8	5.57	6.22	3.5	4.09	3.99
Hungary	−2.5 Jan	−6.9 Q3	−5.0	187	223	−6.9	7.91	6.75
Norway	+55.4 Feb	+56.1 Q4	+17.5†	6.07	6.65	19.3	4.50	4.52
Poland	−5.6 Jan	−7.7 Jan	−2.5	2.91	3.29	−2.5	4.23	5.17
Russia	+138.0 Jan	+95.6 Q4	+6.0	26.0	27.8	6.1	10.50	6.25
Sweden	+20.3 Feb	+28.4 Q4	+6.1	6.99	7.86	2.9	3.21	3.88
Switzerland	+10.3 Feb	+105.9 Q3	+15.1	1.21	1.31	0.3	2.29	2.63
Turkey	−52.2 Jan	−31.5 Jan	−7.0	1.40	1.36	−2.4	19.10	19.62
Australia	−9.2 Jan	−40.9 Q4	−5.1	1.24	1.42	1.2	6.56	5.83
Hong Kong	−16.9 Feb	+19.3 Q3	+9.4	7.81	7.76	1.9	4.17	4.02
India	−54.6 Jan	−13.7 Q3	−2.3	43.0	44.7	−3.5	7.96	8.22
Indonesia	+39.7 Jan	+9.6 Q4	+1.2	9,150	9,150	−0.9	8.92	6.36§
Malaysia	+29.1 Jan	+22.2 Q3	+12.9	3.46	3.70	−4.3	3.64	5.16§
Pakistan	−13.5 Feb	−6.5 Q4	−4.5†	60.6	60.0	−4.7	10.14	6.78§
Singapore	+34.6 Feb	+36.3 Q4	+23.5	1.52	1.62	0.3	3.00	2.93
South Korea	+17.3 Feb	+5.5 Jan	+0.3	939	975	0.4	4.94	4.86
Taiwan	+13.8 Feb	+25.2 Q4	+5.9	33.1	32.6	−2.2	1.85	2.05
Thailand	+2.2 Dec	+3.2 Dec	+1.9	35.0	39.0	−1.2	4.45	4.17
Argentina	+12.0 Feb	+8.1 Q4	+2.4	3.11	3.08	1.3	9.63	na
Brazil	+45.8 Feb	+14.1 Feb	+0.7	2.08	2.23	−3.1	12.68	6.16§
Chile	+24.4 Feb	+5.3 Q4	+0.8	541	536	4.7	5.04	5.11§
Colombia	−0.1 Dec	−2.3 Q3	−2.3	2,173	2,287	−1.5	7.60	6.08§
Mexico	−9.0 Feb	−1.5 Q4	−1.2	11.1	11.0	−0.6	7.03	7.58
Venezuela	+33.0 Q4	+27.2 Q4	+9.3	3,258	2,557	−4.9	10.09	6.55§
Egypt	−12.6 Q4	+2.7 Q4	+1.3	5.70	5.75	−7.6	8.29	5.22§
Israel	−7.7 Feb	+6.8 Q4	+3.4	4.18	4.70	−2.8	4.33	4.87
Saudi Arabia	+165.7 2006	+90.0 2005	+17.3†	3.75	3.75	12.3	5.06	na
South Africa	−10.2 Jan	−16.3 Q4	−5.9	7.38	6.34	−2.0	9.15	7.81
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−3.5 Jan	−2.4 Jan	−13.9†	11.7	13.0	1.5	nil	na
Finland	+11.6 Jan	+12.8 Jan	+5.6†	0.75	0.83	2.3	3.89	4.01
Iceland	−2.1 Jan	−4.4 Q4	−21.5†	66.2	71.7	0.8	13.63	na
Ireland	+35.3 Jan	−6.5 Q3	−4.4†	0.75	0.83	0.8	3.91	3.99
Latvia	−5.3 Jan	−4.6 Jan	−19.5†	0.53	0.58	−0.5	7.22	na
Lithuania	−5.4 Jan	−3.5 Jan	−10.3†	2.58	2.88	−0.5	4.15	na
Luxembourg	−5.2 Dec	+4.8 Q3	na	0.75	0.83	−0.7	3.91	na
New Zealand	−3.8 Feb	+6.2 Q4	−9.6†	1.41	1.66	3.5	6.75	5.91
Peru	+8.7 Jan	+2.5 Q4	+1.0	3.18	3.32	0.3	4.50	na
Philippines	−3.7 Jan	+5.0 Dec	+3.2	48.2	51.3	−1.0	5.31	na
Portugal	−23.3 Dec	−18.1 Jan	−7.8†	0.75	0.83	−3.7	3.91	4.17
Slovakia	−2.7 Jan	−5.4 Nov	−5.5†	25.1	31.5	−3.0	3.63	4.23
Slovenia	−2.1 Jan	−1.2 Dec	−0.4†	0.75	0.83	−1.2	na	na

*Merchandise trade only. †The Economist poll. ‡Economist Intelligence Unit forecast. §Dollar-denominated bonds.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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Markets

Mar 29th 2007
From The Economist print edition

Markets

	Index Mar 28th	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	12,300.4	−1.2	−1.3	−1.3
United States (S&P 500)	1,417.2	−1.2	−0.1	−0.1
United States (NAScomp)	2,417.1	−1.6	+0.1	+0.1
Japan (Nikkei 225)	17,254.7	+0.5	+0.2	+1.2
Japan (Topix)	1,711.1	+0.2	+1.8	+2.8
China (SSEA)	3,334.6	+3.8	+18.5	+19.5
China (SSEB, $ terms)	179.2	+0.9	+36.4	+37.7
Britain (FTSE 100)	6,267.2	+0.2	+0.7	+1.2
Canada (S&P TSX)	13,197.2	+0.3	+2.2	+2.7
Euro area (FTSE Euro 100)	1,298.4	+1.0	+1.6	+2.8
Euro area (DJ STOXX 50)	4,128.2	+1.2	+0.2	+1.4
Austria (ATX)	4,609.7	+1.5	+3.3	+4.5
Belgium (Bel 20)	4,441.2	+1.3	+1.2	+2.4
France (CAC 40)	5,552.7	+0.9	+0.2	+1.4
Germany (DAX)*	6,816.9	+1.6	+3.3	+4.6
Greece (Athex Comp)	4,604.1	+0.6	+4.8	+6.1
Italy (S&P/MIB)	41,201.0	+1.2	−0.6	+0.7
Netherlands (AEX)	505.1	+0.8	+2.0	+3.2
Spain (Madrid SE)	1,605.1	+1.0	+3.2	+4.5
Czech Republic (PX)	1,680.1	−0.1	+5.7	+5.2
Denmark (OMXCB)	437.1	−0.3	+3.1	+4.4
Hungary (BUX)	23,340.6	+1.2	−6.1	−3.6
Norway (OSEAX)	519.5	+0.9	+3.4	+5.7
Poland (WIG)	56,288.8	+1.9	+11.7	+11.8
Russia (RTS, $ terms)	1,925.6	+4.2	−1.1	+0.2
Sweden (Aff.Gen)	382.6	+0.2	+4.7	+2.6
Switzerland (SMI)	8,870.6	−0.8	+1.0	+1.5
Turkey (ISE)	43,079.5	+1.6	+10.1	+12.2
Australia (All Ord.)	5,913.3	+1.1	+4.8	+7.3
Hong Kong (Hang Seng)	19,553.9	+0.2	−2.1	−2.5
India (BSE)	12,884.3	−0.5	−6.5	−4.1
Indonesia (JSX)	1,800.4	+1.2	−0.3	−1.7
Malaysia (KLSE)	1,235.2	+2.1	+12.7	+15.2
Pakistan (KSE)	11,233.6	−0.6	+11.9	+12.3
Singapore (STI)	3,201.8	+1.5	+7.2	+8.6
South Korea (KOSPI)	1,439.7	−0.2	+0.4	−0.8
Taiwan (TWI)	7,788.1	+0.4	−0.5	−1.9
Thailand (SET)	669.0	−0.1	−1.6	+1.5
Argentina (MERV)	2,072.1	−0.6	−0.9	−2.2
Brazil (BVSP)	44,484.0	−2.5	nil	+3.6
Chile (IGPA)	13,206.7	−2.0	+6.7	+5.3
Colombia (IGBC)	10,917.2	nil	−2.2	+0.9
Mexico (IPC)	28,098.3	−0.4	+6.2	+4.2
Venezuela (IBC)	47,809.1	−2.2	−8.5	−9.0
Egypt (Hermes)	63,674.9	+1.8	+3.9	+4.0
Israel (TA-100)	981.4	+2.0	+6.5	+7.4
Saudi Arabia (Tadawul)	7,889.7	−8.3	−1.3	−1.3
South Africa (JSE AS)	26,829.8	+1.8	+7.7	+4.7
Europe (FTSEurofirst 300)	1,499.8	+0.5	+1.1	+2.3
World, dev'd (MSCI)	1,510.4	−0.1	+1.8	+1.8
Emerging markets (MSCI)	913.8	+0.5	+0.1	+0.1
World, all (MSCI)	373.9	−0.1	+1.7	+1.7
World bonds (Citigroup)	670.3	+0.1	+1.8	+1.8
EMBI+ (JPMorgan)	416.8	nil	+2.3	+2.3
Hedge funds (HFRX)	1,297.5	+1.4	+1.7	+1.7
Volatility, US (VIX)	15.0	12.2	11.6	(levels)
CDSs, Eur (iTRAXX)†	19.8	−10.2	−7.6	−6.5
CDSs, N Am (CDX)†	31.8	+0.6	+8.3	+8.3
Carbon trading (EU ETS) €	0.95	+9.2	−84.9	−84.7

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EEX; HKMA; Markit; Standard Bank

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Official reserves

Mar 29th 2007
From The Economist print edition

The bulk of the world's foreign-exchange reserves are held in Asia and most of them by just two countries: China and Japan. Japan's reserves are partly a legacy of intervention in currency markets during 2003 and 2004 to keep the yen weak and support its then fragile economy. China's reserves topped the $1 trillion mark last autumn. Its continued hoarding is a symptom of a similar policy: keeping the exchange rate capped in order to foster exports. In theory, foreign-exchange reserves are needed to smooth short-term payments and to underpin confidence in the holder's currency. But the reserves held by many developing countries now seems to be far in excess of any possible prudential need.

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